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VOLUME 7

JANUARY, 1948

NUMBER 2

Published QUARTERLY under grant from the ROBERT SCHALKENBACH FOUNDATION
in the interest of constructive synthesis in the social sciences.

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THE AMERICAN JOURNAL OF ECONOMICS AND SOCIOLOGY is published quarterly, in October, January, April and July. Published at North Queen Street and McGovern Avenue, Lancaster, Pennsylvania. Executive offices, 50 East Sixty-ninth Street, New York 21. Subscription, \$3.00 a year. Single copies, \$1.00. Checks payable to the American Journal of Economics and Sociology, Inc. Correspondence concerning contributions should be addressed to the editor at the Journal's offices. Correspondence concerning subscriptions and other business matters should be addressed to the secretary at the Journal's offices. The editor and the members of the board of editors do not necessarily endorse opinions and statements in signed contributions, and are not necessarily in agreement with any contributions whose publication they recommend. The members of the editorial advisory board do not necessarily endorse the Journal's orientation. Entered as second class matter at the post office at Lancaster, Pa., under the Act of Congress of March 3, 1879. Registration of title in the U. S. Patent Office pending.

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The Silence of the Opposition

By FRANCIS NEILSON

ONE OF THE DISTINGUISHING MARKS of much of the literary work of the well-known essayists of the middle of the last century is the desire to stimulate their readers to adopt a spirit of healthy skepticism in economics, politics and sociology. Even earlier—from Jonathan Swift to William Hazlitt—the essay assumed an importance in English life which undoubtedly helped to clear away many of the fogs that had settled upon the minds of the reading public.

I have recently surveyed some of the critical articles of the nineteenth century, and I have found it a fascinating exercise. The writings of that period are in strange contrast to the indifferent work of today. Searching criticism and virile opposition by our publicists is far to seek. Indeed, our newspapers, weekly reviews, and magazines are filled with compositions which, for the most part, deal with sheer statement and contain scarcely any historical analysis or pertinent comparison. We have no Swift to make a frontal attack upon the bastions of political iniquity; no Hazlitt to shake the very foundations of an Edmund Burke; no Junius to reveal the sordid methods of statesmen and their toadies. The opposition is silent.

Healthy Skepticism and Spiritual Integrity

IN WONDERING how this comes about I have reached the conclusion that the radio and the knowledge-in-a-nutshell publications have destroyed the desire of the inquiring mind for reasoned argument concerning the important matters that affect the everyday life of individuals. It is all too easy now to get bits of information on almost any subject, and this goes a long way toward explaining why the sciolist succeeds so well in impressing our people with his sketchy erudition.

The practice of a healthy skepticism is necessary for the man who has some respect for his own character and his spiritual integrity. If he would protect himself from the virus of false reports and deliberate mendacity he must weigh carefully the statements publicized by the governments, their press and radios, and even those which come from the pulpits and lecture halls of the universities. Polybius, in his "Histories," tells us:

... We should therefore not shrink from accusing our friends or praising our enemies; nor need we be shy of sometimes praising and sometimes blaming the same people, since it is neither possible that men in the actual business of life should always be in the right, nor is it probable that they should be always mistaken. . . .¹

Such was the attitude of viewing affairs that he maintained when he wrote what Mahaffy described as "perhaps the greatest *universal history*, or history of the civilized world, attempted in old times."

The mere propaganda that is gathered in the daily round is usually, after test, proved to be without firm basis or historical background. It is serviceable for the smokeroom of the club and the dinner table before bridge, but that it fails to interest is easily seen by the number of subjects that can be touched upon within a few minutes. Friends of mine tell me

¹ In six volumes, trans. by W. R. Paton, London, William Heinemann, New York, G. P. Putnam's Sons, 1922, Vol. I, Bk. I, p. 37.

that most important problems are dealt with in a phrase or two and then someone not interested in that particular question goes off at a tangent upon an utterly irrelevant matter within the range covered by the latest headlines. It seems to be wearisome for many people to give more than a minute or two to any of the political or social crises that abound.

The day is gone when men and women would spend hours upon such questions as foreign policy, the condition of labor, taxation, and trade development or depression. When the mind was not abused by the domestic telephone, the radio, and the snippet press, people had leisure to reflect upon the concerns that affected them as citizens and taxpayers. And, yet, in that period, before invention made us slaves of the hour, men found far more enjoyment in reading Carlyle, Matthew Arnold, and John Morley than people get from the multifarious adjuncts of time-wasting devices such as the movie, the sensational novel, and the funnies.

How, then, can it be expected that such a people will cultivate a healthy skepticism and feel proud in the notion that they are not easily taken in by every bureaucratic current that blows the propaganda about? Surely it is expecting far too much from the young people who clutter up our colleges and universities that in the course of fitting themselves for citizenship as intelligent beings, they should show that they are well grounded in history, economics, and what is called political science. If there be any doubt about this, it is a simple matter to make tests as I have done over a period of thirty years or more, by examining the young B.A.'s in the very subjects in which they have majored. Those who have not taken courses in the exact sciences I find lamentably deficient in the very elements of the studies they are supposed to have mastered.

• **Dynamic Criticism for Civic Reform**

NOW THERE ARE SOCIETIES composed of men and women who devote themselves to discussions of federal and civic affairs; people who undoubtedly reveal at their meetings a desire to understand why grave problems persist generation after generation and why, after such intensive work in the field of municipal politics, so little improvement is achieved. In speaking to one of the leaders of a well-known group about the work that was done, I learned that "it was a heart-breaking business to make any impression at all." This woman, a well-known novelist, has devoted thirty years of her life to a movement for municipal reform.

I told her that one reason why I thought she was disappointed with the work was that there seemed to be no deliberate criticism reaching the officials responsible for the depraved conditions requiring improvement. I had spoken to a large gathering, and after my address answered probably twenty or thirty questions. So I had an idea of the direction in which their minds seemed to run and could conclude that the movement lacked force, persistence, and knowledge of responsibility. There was a timidity in all they were doing that was indicative of their powerlessness to make the opposition realize they meant business. In other words, there was no healthy skepticism, no dynamic criticism, no virile opposition. The vital point they seemed to avoid as if they were afraid of hurting someone's feelings.

But is it any different with the societies in which men bind themselves for the purpose of pointing out abuses and asking that they be remedied? I have not found that they have any more courage than the women. As for a knowledge of the fundamental causes of poverty, bad housing, child delinquency, gangsters, black markets, and crooked politicians, they do not reveal in their debates a scintilla of it.

Yet, when a meeting is over and one talks to the individual members about the subject that has been discussed, some of them indicate that they know the why and wherefore of these affairs, but for some extraordinary reason, they do not expose what is in their minds in open meeting. What is it? Cowardice or a feeling of uncertainty? Again I ask: How can the healthy skepticism, the glowing criticism which amounts almost to a burning indignation, such as was expressed in the "Latter-Day Pamphlets" by Carlyle and in the "Essays" by Matthew Arnold, be fostered so that some positive worth will result from the discussions?

Deficiencies in Educational Methods

THERE HAVE BEEN growing indications in recent years that many men have become conscious of the deficiencies in the methods of education and that they have passed from the college and the university into business with only the mere elements sufficient to start work in an office or a factory. This may explain the growth of adult classes in important centers. I have attended some of these gatherings, and they remind me forcibly of the conditions in England before 1870. Then the only opportunity to learn to read and write that was given to the great body of Nonconformists in certain sections of industrial areas was at the adult schools held on Sunday in places of worship. Tens of thousands of men, women, and children learned their letters, how to write, to multiply and add, in the classes that were held at the meeting houses. I have met hundreds of the people who received the elements of their education in this way. I have known scores of parents who, later on, sat down to lessons with their progeny after they came back from school. And all that took place in the period when there was a healthy skepticism abounding in all ranks of society, just as it was in this country sixty years ago, when first I came to this land.

Few seem to have noticed that the adult classes now forming—some of them already in being—are rather a disheartening commentary on the education men have received during the past generation or so. I would not say that it is to be inferred from this desire—to return to the best that has been thought and said—that it indicates utter dissatisfaction with the curricula of the schools and colleges, but I would point out that what we are now doing in this respect was done in England more than a generation ago for all and sundry, without any call to classes.

There were three men who realized that the elementary education of the time was somewhat narrow and gave little or no opportunity for cultural pursuits. Sir John Lubbock (afterwards Lord Avebury), a banker and educator of great achievement, selected one hundred best books for the masses, and these were widely circulated. Then followed Lord Acton's list which differed widely from Lubbock's. Clement Shorter also made a list of his one hundred best books. The controversy that was aroused at the time as to which was the best set is described in Shorter's "Immortal Memories."² I would advise those who are interested in the present "Great Books" movement to read what he had to say about it.

Let us contrast that period with this one. Forty years ago in England business men as a rule finished their schooling early, and only a few had the opportunity of a university course. Now our halls of learning are thronged with thousands, and the librarians tell us that those who pass from them are as illiterate as the war statistics prove.

From my point of view the hundred best books of the sets that I have mentioned came at a time when, after the campaigns of Matthew Arnold, there was a wholehearted desire on the part of business men and thousands of their employees to gather a background of information that they could use

² London, Hodder and Stoughton, 1907, Ch. VIII, pp. 225-83.

in forming for themselves a way of life, a means of avoiding the pitfalls of ignorance, and with it a knowledge of the past that would give them a better understanding of present affairs and act as a guide for future conduct. This explains to a great extent why a critical spirit was shown by the people in peace time and why economic and political reforms reached the statute book. Literary and debating societies sprang up in most of the towns of the country, and for at least eight months of the year the best-known lecturers addressed interested and enthusiastic audiences thirsting for knowledge.

Apathetic Taxpayers

RECENTLY WHEN THE NEWSPAPERS were full of extraordinary and unexpected changes in federal affairs, I took lunch in the company of some six or eight men. I fully expected to hear critical remarks about the resignation of our Secretary of State and the appointment of a general to succeed him. To my amazement, half an hour passed and not a word was said about these matters. Then, provocatively, I ventured to suggest that an unprecedented move had been made, but no one took any notice of it, and the subject was stillborn.

Here was a question that certainly called for healthy skepticism, for an unusual thing had been done and approved without open consideration or debate by the responsible representatives of the people. But this is only one of hundreds of such incidents that pass with almost lightning rapidity and scarcely get a modicum of adverse criticism. Today I saw a headline in the evening paper, which said that the budget for the defense services is to be eleven billion dollars. I spoke to a man about this, and all I got from him was a shrug of his shoulders and—"What can you do with politicians?"

Many of the momentous problems we have to face can be dealt with by the taxpayers alone. These do not concern

the United Nations committees nor the deliberations of the Big Three or Four. For instance: the proposal for compulsory military service; the license that is given in Congress to the shocking waste in the departments and the enormous burden of the bureaucracy. Although there has been some criticism about such problems as these, it has been mainly expressed by the politicians themselves, and it has moved along strictly party lines. The taxpayers who have to foot the bill have scarcely anything to say, and one can search the newspapers from beginning to end, morning or evening, and look in vain for any comment stronger than a mere reference to what is taking place. The government is what the electorate permits it to be.

The taxpayer is now the servant of the State. He toils for a bureaucracy that does not spin. He no longer is in command. During the past ten or fifteen years a grave change has taken place in the attitude of men and women toward the government. It seems almost antiquated now to refer to the President as "the hired man" (to use Abraham Lincoln's phrase about himself). All the warnings expressed by the Founding Fathers and many of their followers are forgotten. Truth to tell, they were extraordinary prophets, for many of their predictions have come true.

The whole idea that lay at the root of this Republic has been turned upside down since 1912. In these thirty-five years (which cover the first World War and its consequences; and now the second World War, the consequences of which are only so far limned that no one can foresee what the collapse of Europe means) changes have taken place which are so thoroughly opposed to the ideas of Washington and Jefferson that thoughtful men despair of the people ever regaining control of their government.

The change is so grave that when, during the war, I read to

a friend some parts of Jefferson's speeches and writings in the way of healthy skepticism, I was told that it was not patriotic to say such things in the midst of the conflict. And the gentleman was amazed when I told him that his venerated Thomas Jefferson had been guilty of making such statements.

The Relapse of Political Democracy

PERHAPS IT MIGHT BE WELL to give some instances of the way in which men in the past criticized governments and their work. I shall not burden the reader with examples taken from our own history because he might know them, or at any rate, it is easy for him to turn to books of reference he can get in any library and cull them for himself.³ Therefore, I shall take a few from the history of England. And I would ask the reader to remember what has taken place in Congress when a dissentient voice has been raised during the past fifteen years. I would suggest that there is a profound difference in the way the skeptic has been received recently and the manner in which the House of Commons took the criticism of Charles Fox, for instance, whose forte was reasoned skepticism plus attack.

The King's speech to Parliament in 1792 called for an increase in the naval and military forces because, it claimed, "a spirit of tumult and disorder had shown itself in acts of riot and insurrection, *which had evidently proceeded from foreign instigators.*"⁴

When Fox rose to speak on his amendment, he said: "There is not one fact asserted in his majesty's speech which is not false—not one assertion or insinuation which is not un-

³For instance: Benjamin Fletcher Wright, Jr., "A Source Book of American Political Theory," New York, The Macmillan Company, 1929; Francis W. Coker (ed.), "Democracy, Liberty, and Property," New York, the Macmillan Company, 1942; Joseph Dorfman, "The Economic Mind in American Civilization, 1606-1865" (2 vols.), New York, The Viking Press, 1946.

⁴Charles James Fox, "Speeches During the French Revolutionary War Period," London and Toronto, J. M. Dent and Sons Ltd.; New York, E. P. Dutton and Co., Everyman's Library, p. 1.

founded. Nay, I cannot be so uncandid as to believe that even the ministers themselves think them true.”⁵

In strong terms he not only denounced the speech from the throne but condemned the ministers root and branch. He showed clearly that it was the intention of the government to deprive the people of meeting to discuss their grievances and that protestants were to be silenced.

It is startling to think of what Fox could say in the House of Commons at the end of the eighteenth century, holding the members spellbound by his criticism, and then to recall what has taken place in the halls of Congress here when some one has dared to brook the authority of the commanding power. Political democracy has suffered an extraordinary relapse. It would be a salutary move on the part of the sponsors of the adult classes which are busy reading Plato, Aristotle, Montaigne, Kant, Shakespeare, and Karl Marx, to spend a dollar upon Fox's speeches in the Everyman Series. In them will be found enough material to make an intelligent student wonder what on earth has happened in this Republic—now a mere political democracy—since Fox boasted in the House of Commons that America had the fairest and justest constitution of any State in the world.

These speeches, as examples of what I call healthy skepticism and virile opposition, the criticism which searches for the truth and has no ulterior intention, cannot be beaten. When Fox dealt with a subject, his hearers knew how the crisis arose, what the situation was, and what the future would be. He poured into his examination of the policies of the government and the conduct of its members a wealth of information and incisive analysis. They are models of political wisdom and straightforward methods of parliamentary debate.

Slogans as Propaganda Weapons

IT WAS NOT SO EASY in that day to drug the people with a

⁵ *Ibid.*, p. 2.

few senseless slogans. There were fearless pamphleteers then who examined closely the words and actions of ministers. Contrast that period with this through which we have passed during two great wars, and let the student, whether he be in a university or in an adult class, judge for himself the political sagacity of the people now and then. Let us take three of the wonder-working phrases that have stimulated men to kill millions and cripple continents. We heard these high-sounding phrases in the last war. The platforms of America and Great Britain rang with them for four years. But by 1939 almost a generation had passed, and those who had lived through the turmoil over twenty years before had forgotten them. When again they appeared in the headlines, in the editorials, in the speeches of crusading visitors, in Parliament and in Congress, and from pulpiteers, they sounded new, as if they had never been used before. People all round me for six long years embellished their dinner chat with these magic-working slogans.

Few knew during 1914-19—fewer still from 1939-45—that many of the greatest American and British statesmen had poured contempt upon them. But no one dared to do so at any time during the last two wars without suffering the consequences of ministerial displeasure; nay, more in some cases, of being incarcerated in prison without charge.⁶ What were these slogans? (1) "The balance of power"; (2) "the liberty of Europe"; (3) "a common cause." Now read the words which Pitt the Elder (Earl of Chatham), friend of America, directed against the powerful Duke of Newcastle who was the political boss of Britain during the middle of the eighteenth century. Pitt said:

We have suffered ourselves to be deceived by names and sounds—"the balance of power," "the liberty of Europe," "a common cause," and many

⁶ During World War II there were 1,847 persons interned in Great Britain as political prisoners under Defence Regulation 18-B.

more such expressions, without any other meaning than to exhaust our wealth, consume the profits of our trade and load our posterity with intolerable burdens. None but a nation that had lost all signs of virility would submit to be so treated.⁷

Have we "lost all signs of virility"? It would seem so, but the virility may not have become impotent. It may still be there; perhaps it is that we are ignorant, that our establishments of education have failed signally to teach history as General Marshall himself told the American Historical Association and the American Military Institute it should be taught.⁸ Man after man in the House of Commons has shown clearly the hollowness of such phrases as "preserving the liberties of Europe." In the past it was the excuse of the jingoes to start a war to maintain "the balance of power." Gladstone, John Bright, and Richard Cobden expressed themselves clearly upon the true meaning of this slogan. Cobden said:

... The balance of power, which has for a hundred years been the burden of kings' speeches, the theme of statesmen, the ground of solemn treaties, and the cause of wars; which has served, down to the very year in which we write [1836], and which will, no doubt, continue to serve for years to come as a pretence for maintaining enormous standing armaments by land and sea, at a cost of many hundreds of millions of treasure—the balance of power is a chimera! It is not a fallacy, a mistake, an imposture, it is an undescribed, indescribable, incomprehensible nothing. . . .⁹

Here, again, I may make another suggestion to be considered by the sponsors of the adult classes, and that is to add Cobden's speeches and writings, with an introduction by

⁷ Speech of December 2, 1755, as quoted in J. C. Long, "Mr. Pitt and America's Birthright," New York, Frederick A. Stokes Company, 1940, p. 6.

⁸ In addressing these two groups in January, 1940, Gen. Marshall said: "I believe that much of the colossal waste, much of the tragedy of war are due to the ineffective manner in which history is written and taught. . . . War is a deadly disease that today is affecting hundreds of millions of people in all parts of the world. What we must do is to determine the nature of war. We must isolate the germ and then we must destroy the germ. Before we can do that we must have better histories and better teachers. The student must be told what happened and why."

⁹ "The Political Writings of Richard Cobden" (2 vols.), London, T. Fisher Unwin, 1903, Vol. I, p. 197.

Sir Louis Mallet, to their list of books. They might provide mental ammunition more deadly than the atomic bomb itself. For Cobden's munitions could be used before the conflict and no one would be hurt but the warmongers and their policies.

In another respect I should like to remind the student of the auxiliary methods used in these last two wars to stimulate the deluded and to point out that everything of any consequence that was resorted to by the propagandists to fire the imagination of the indifferent has been tried in every war since Marlborough went to the continent. No one has put it quite so clearly and succinctly as Lord Lauderdale. In 1793 he said:

But is there a man in England ignorant that the most wicked arts have been practised to irritate and mislead the multitude? Have not handbills, wretched songs, infamous pamphlets, false and defamatory paragraphs in newspapers been circulated with the greatest assiduity, all tending to rouse the indignation of this country against France, with whom it has been long determined I fear to go to war? To such low artifices are these mercenaries reduced, that they have both the folly and audacity to proclaim that the New River water has been poisoned with arsenic by French emissaries.¹⁰

It is almost beyond belief that these threadbare slogans and devices can be repaired in a few months whenever a war begins. Nothing I can think of reveals in so clear a light the persistent stupidity of the masses. Without knowledge it is utterly unreasonable to expect the healthy skepticism that is necessary to defeat the purposes of the war-making politicians. We have forgotten that one hundred and seventy years ago it was the fashion of the hour to denounce Washington and every man that was close to him. At the same time there were those in the ministries of England who did not hesitate to libel their fellow members in the House of Commons, traduce them for not supporting their policies, and

¹⁰ Quoted in "The Political Writings of Richard Cobden," *cit.*, Vol. I, p. 314.

denounce them as traitors to their country. Sir James Mackintosh, in the House in 1815, said:

When Mr. Burke and Mr. Fox exhorted Great Britain to be wise in relation to America, and just towards Ireland, they were called Americans and Irishmen. But they considered it as the greatest of all human calamities to be unjust. They thought it worse to inflict than to suffer wrong; and they rightly thought themselves then most really Englishmen, when they most laboured to dissuade England from tyranny.

During the last war I read a fulsome tribute to William Pitt the Younger, Prime Minister of England during the war against Napoleon Bonaparte. The object of the writer was to draw a parallel showing how Great Britain had in the name of justice and liberty overthrown the Corsican upstart. Now this screed was written to delude those who had not been taught history as General Marshall defined it. For the author showed that he knew his period so well that he could easily suppress many of the facts of Pitt's actions that would have revolted his readers. He did not point out that the statesman he had selected to hold up as an example to be followed was the Prime Minister of whom Macaulay said:

And this man, whose name, if he had been so fortunate as to die in 1792, would now have been associated with peace, with freedom, with philanthropy, with temperate reform, with mild and constitutional administration, lived to associate his name with arbitrary government, with harsh laws harshly executed, with alien bills, with gagging bills, with suspensions of the Habeas Corpus Act, with cruel punishments, inflicted on some political agitators, with unjustifiable prosecutions instituted against others, and with the most costly and most sanguinary wars of modern times. He lived to be held up to obloquy as the stern oppressor of England, and the indefatigable disturber of Europe. . . .¹¹

The Wit of Sydney Smith

WE NEED A SYDNEY SMITH, "the wisest of witty men, and the wittiest of wise men," but where we are to find one I do

¹¹ "Critical, Historical, and Miscellaneous Essays," New York, A. C. Armstrong & Son, 1860, Vol. VI, p. 271.

not know. That brilliant son of the church, in his articles to the *Edinburgh Review*, in his sermons, in his letters for a period of fifty years gave to the British people a dose of healthy skepticism of such profound wisdom and incisive wit that worked as great wonders as the masterly satires of Swift. We might take one or two examples from that precious book, "Wit and Wisdom,"¹² which was to be found in the libraries of middle-class people a generation ago. He wrote an article for the *Edinburgh Review* at a time when there was much talk about the peace-loving nations and the necessity for conquering some State for the sake of "the liberty of Europe." This was in 1827. He said: "Alas! we have been at war thirty-five minutes out of every hour since the peace of Utrecht."¹³

Think of it! That meant thirty-five minutes out of every hour during a period of 113 consecutive years. Later, when the interventionists in London thought the time had come to start another conflict, he wrote to Lady Grey, the wife of the Prime Minister, saying:

For God's sake, do not drag me into another war! I am worn down, and worn out, with crusading and defending Europe, and protecting mankind; I *must* think a little of myself. I am sorry for the Spaniards—I am sorry for the Greeks—I deplore the fate of the Jews; the people of the Sandwich Islands are groaning under the most detestable tyranny; Bagdad is oppressed; I do not like the present state of the Delta; Thibet is not comfortable. Am I to fight for all these people? The world is bursting with sin and sorrow. Am I to be champion of the Decalogue, and to be eternally raising fleets and armies to make all men good and happy? We have just done saving Europe, and I am afraid the consequence will be, that we shall cut each other's throats. No war, dear Lady Grey!—no eloquence; but apathy, selfishness, common sense, arithmetic! I beseech you, secure Lord Grey's swords and pistols, as the housekeeper did Don Quixote's armour. If there is another war, life will not be worth having.

"May the vengeance of Heaven" overtake all the Legitimates of Verona!

¹² Boston, R. Worthington Co., London, Longmans and Company, 1874.

¹³ *Ibid.*, p. 98.

but, in the present state of rent and taxes, they must be *left* to the vengeance of Heaven. I allow fighting in such a cause to be a luxury; but the business of a prudent, sensible man, is to guard against luxury.

There is no such thing as a "just war," or, at least, as a *wise* war.¹⁴

What would have happened to a clergyman who dared to write to the Prime Minister's wife in such a manner in the spring of 1939?

This book, "Wit and Wisdom," might be added to the list of those being studied by the adult classes, for there is nothing else quite like it for healthy skepticism, delicious wit, and love of mankind. The editor who compiled the work says in the introduction: "In this form it is believed that the fragments of Sydney Smith may rank beside the thoughts of Pascal without his mysticism, and eclipse the wit of La Rochefoucauld without his misanthropy."¹⁵

The taxpayers never learn enough to protect themselves, and never yet, since the days of the Reformation, was there a people that had not sufficient domestic enemies near by to keep them busy at home. Perhaps the work to be done by the adult classes will inaugurate a new race of thinkers—those who will find more wisdom between the covers of ancient works than any radio, movie, or digest can purvey to the folk. It may be that a knowledge of the past will make men conscious of the necessity for healthy skepticism in all things, and in a few generations the blight of ignorance may be eradicated. What is wanted is a spiritual purge to eliminate from the body politic the ideas that have been rampant in men's minds and which have worked for their destruction.

New York

¹⁴ *Ibid.*, p. 343.

¹⁵ *Ibid.*, p. viii.

Two Decades of Decadence in Economic Theorizing

By HARRY GUNNISON BROWN

I

THE CONSTANTLY PROLIFERATING TREE of economic theory has various branches. In this paper, attention will be devoted not to all the branches but only to that which is concerned with monetary theory, and especially with monetary theory as it relates to the fluctuations of business, to the alternation of "prosperity" and "depression."

An understanding of the way in which restriction of the circulating medium conduces to business depression can probably best be reached if we begin with the simplest possible case. Let us assume, therefore, an economy in which there are no banks and in which all transactions are carried on by the use of money. There is, as in the world we know, buying and selling of commodities, borrowing and lending of money, leasing of land and buildings and the hiring of labor. Let us assume that the amount of money in circulation in 1928 and until (say) June 30th of 1929 was 21 billions of dollars, that trade has been and is active and that employment is steady and high.

But immediately thereafter the quantity of money decreases, and rather quickly, to 14 billion dollars. In order that our illustration may more closely simulate the conditions often occurring in the contemporary world, we shall assume the decrease in money to occur in such a way that almost no one has any realization of what has occurred to others than himself and that, in any case, few would understand its significance or anticipate its consequences. Through one or another circumstance, each person has lost (on the average)

one-third of his money by fire, by dropping it into the water, losing it in the fields and woods or otherwise. Each person has available for spending, on the average, two-thirds as much as previously. But, as said above, no one or almost no one is aware that all others have suffered an equivalent money loss.

Under such circumstances, dull business and unemployment would be almost inevitable. For the amount of money available to spend has been reduced by \$7,000,000,000, and with only two-thirds as many dollars available to spend, as previously, how *can* as many goods be purchased or as many workers be hired?

There is, of course, no mathematical reason why depression and unemployment should ensue just because the total volume of spending is reduced by a third. These results would not manifest themselves *if* prices, wages and rentals would all decline in as great proportion—and *as quickly*—as the volume of spending. For even though only two-thirds as much money is spent for commodities, just as many commodities can be and will be purchased with this decreased money provided the commodities sell for only two-thirds the previous prices. And even though only two-thirds as much money is spent in the hiring of labor, as many workers can be and will be hired and for as many hours, provided wages are only two-thirds as high. And likewise with the leasing of houses and of business property and other business transactions.

But who will assert that such a decrease of money and resulting decrease of demand for goods and for labor would be immediately succeeded by acceptance of equally reduced prices, wages and rentals? Who will assert that the necessary proportionate reduction in prices (including retail prices as well as wholesale and raw material prices) and of wages and rentals would come within a month or two? Who, indeed,

will declare with confidence that such a reduction of prices and of rentals and wages would come within a year—or even two years?

But then it may be argued by some that even with a great reduction in the number of dollars *available* to spend, there need be no proportionate reduction in the number of dollars spent—or no reduction at all! Men will make up for the decrease, it may be said, by spending money that they had been holding for emergencies. That is, the *velocity of circulation* of money will be greater.

Yet to suppose that there is no reduction at all in the amount of money spent is to suppose that a man *will spend as many dollars when he has few as when he has many!* The truth is, whatever may be the mathematical possibilities in the case, that human beings spend less money when they have less money, and that to reduce the amount of money in a country (the number of dollars, francs or marks) causes less to be spent than if the amount of money had not been reduced. Hence the demand for goods declines and the tendency of prices is downward.

Indeed, there is a reasonable probability that a decrease in the number of dollars, before very long and at least for some time, will reduce the number of dollars spent in even greater proportion. For the decrease of demand for goods and the incipient fall of prices may give rise to anticipation of further fall of prices. Thereby it may induce business men to delay spending their money lest the goods they purchase with it prove unsalable except at a loss; or may induce consumers to delay spending in the hope of finding better bargains later. That is to say *velocity of circulation* of money may not only fail to become greater but may actually become less.

Under such circumstances, business can remain as active as before only if prices fall even more rapidly than the decline in the number of available dollars.

If, however, commodity prices do fall in a sufficient ratio, this will still not insure business activity if at the same time such business expenses as rentals and wages remain comparatively rigid. Thus, if commodity prices fall because of a decrease of money and yet wages do not fall in anything like the same proportion, then the goods produced by labor will not sell for enough to pay these rigidly held wages. Demand for labor must and will decline, unemployment must result and production be cut down.

If charges made by owners for the use of land and capital are rigid despite falling commodity prices, there will be more land and capital left unused.¹ In consequence, labor will be less well equipped with the means of production, will produce less, and must accept even lower wages than otherwise if it is to be employed.

But is not all this unrealistic? We do not carry on business solely with money. In fact, much more business is transacted by the use of bank checks than by means of money in the narrow sense. Does not this fact make the above analysis irrelevant?

The answer is definitely in the negative. Although most of our business is indeed done through the transference, by checks (and bank drafts), of bank demand deposits from one person to another, this means merely that bank deposits are part of the circulating medium and act on the demand for goods and on prices precisely as does money. And if, with only money used, a decrease of (say) one-third in the number of dollars would bring business depression, then, with bank demand deposits used, a decrease of one-third in the volume of bank deposits as well as in the volume of money, would likewise result in business depression.

¹ In the case of land, the holding of a considerable amount of it out of use seems to be a *chronic* evil. I have discussed this in my book on "The Economic Basis of Tax Reform," (Columbia, Mo., Lucas Bros., 1932) and would refer especially to chapter IV, §3.

The truth probably is that central banking policy has more to do than anything else with the alternation of prosperity and depression, and that central banking policy affects business activity through affecting the volume of circulating medium of which bank deposits subject to check are, at any rate in the English-speaking countries, the major part. Unwise bank policy can quickly turn prosperity into depression. And the explanation of how it does so is almost identical with our explanation above of how a disappearance of a third of all money would do so. In fact, the causal influence leading to depression may be every bit as unperceived by the generality of men as if each individual had accidentally lost a third of his money while yet no one knew that any others than he had suffered such loss.

The decrease of circulating medium which thus tends to depression, always or almost always results from restriction of bank credit, and such restriction, when there is a controlling central bank or central banking system, is usually a matter of central bank policy. This of course does not mean that those who control central banking policy deliberately seek—or have ever sought—to bring about depression. It means rather that bank credit policy may be, and sometimes is, inept, so that evil consequences ensue which the determiners of policy did not intend or expect.

If the interest (and discount) rates charged by banks are unduly low, there is encouragement to borrowing from banks, to the increase of demand deposits, therefore, on which checks can be written and, in extreme cases, to serious inflation. On the other hand, if the interest (and discount) rates charged by the banks are unduly high, there is discouragement to borrowing from banks, and the volume of demand deposits on which checks can be written declines. This decline in the volume of circulating medium, if sufficiently great and prolonged, will bring depression.

Students of banking understand that the central bank or banking system—in the United States, the Federal Reserve System—has ways of controlling the lending policy of the other banks. Thus, by lowering their own interest and discount (rediscount) rates, by purchasing eligible securities in the open market and in other ways, the Federal Reserve banks can promote increase of the circulating medium. On the other hand, by raising their own interest and discount (rediscount) rates, *selling* securities in the open market and otherwise, they can force other banks to restrict their lending and can thus bring about a *decrease* of the circulating medium. And such a decrease may be sufficient to induce business depression.²

That such action by the central banking system could bring—and even that it did bring—business depression was a view that had considerable support prior to the rise, in the Nineteen Thirties, of the “new economics” and its “prophets.” Here was a cause which very obviously *could* bring about depression. Here was a cause which was definitely in operation prior to and into the depression of 1921–1922. Here was a cause which was definitely again in operation prior to and into the depression of the Nineteen Thirties. The late Irving Fisher stated that according to the best estimates he knew, “check book money,” *i.e.*, bank demand deposits, “shrank between 1929 and 1933 from 22 billion to 14 billion dollars” and that it was “this shrinkage of 8 billions that constituted the essence of the depression.”³ Why, then, should the “prophets of the new economics” apparently reject—or, at any rate, soft-pedal—central bank policy as the most significant cause of depression, and spend their time in speculations as to whether relatively inconsequential condi-

² In my “Basic Principles of Economics,” (2nd edition, Columbia, Mo., Lucas Brothers, 1947). I have presented the elements of this subject more fully than I am doing here and would refer readers who need such a discussion of the elements to Chapters V and VI of that book.

³ In “100% Reserves,” *Commercial and Financial Digest*, Los Angeles, Cal., June 1937.

tions, and conditions perhaps largely generated by depression itself, are the significant causes; or whether the causes are to be found in conditions that cannot convincingly be shown to operate in that direction at all?

About a year and a half before the stock market crash of 1929 a distinguished Swedish economist, the late Gustav Cassel, who was at that time in the United States, appeared before the Banking and Currency Committee of the House of Representatives. In the light of the events of 1929 and following, his statements before this Committee may seem to be almost prophetic. Here is his testimony:⁴

The Chairman. In connection with the practical situation that confronts us here now, we are in the midst of what has been termed a speculative situation. Yesterday the Federal Reserve Bank of New York raised its rates. Brokers' loans were reported to have increased \$150,000,000 in the report that was issued yesterday. Much attention is being directed to the volume of brokers' loans and its effect on the whole monetary situation.

We would be very glad to have your opinion on that present situation, if you care to express it.

Doctor Cassel. Well, Mr. Chairman, I am very glad that you ask me this question, because it gives me an opportunity to show how the aim of checking this speculation, from the point of view of stabilizing the money of this country, is an outside interest, involving the monetary policy in great difficulties. If you had not that speculative tendency in the New York Exchange, the Federal Reserve banks here in this country, I understand, would be able to keep a $3\frac{1}{2}$ or 4 per cent rate of discount. Now, there is this stock speculation, and to meet that the Federal Reserve bank in New York feels it is obliged to raise the rate of discount to $4\frac{1}{2}$ per cent. That is, I assume, not at all done for monetary purposes; that is a measure entirely outside of the normal province of the Federal Reserve system, which is to regulate the currency of the country; but there seems to be a popular demand that the Federal Reserve system should mend all difficulties arising in the country and particularly fulfill the function of keeping the speculators in New York within reasonable limits. I think that is unsound.

⁴ Given May 16th, 1928. See *Stabilization Hearings before the Banking and Currency Committee of the House of Representatives*, on H.R. 11806, p. 381.

It would be a great benefit to the country if some means could be devised by which it would be possible to limit speculation on the New York Stock Exchange without increasing the Federal Reserve bank's rate, because such increases may be very unwelcome. They may disturb the whole monetary policy, and it may have an effect on the general level of prices that will result in a depression in production in this country, followed by a decrease of employment, all only for the purpose of combating some speculators in New York.

There is, to be sure, a bit of careless statement at the end of Cassel's testimony. One should not say, it seems to me, that a decrease of production would be *followed* by a decrease of employment. When there is such a decrease of production from restriction of bank credit, there is, obviously, a *simultaneous* decrease of employment. Also, I think it may be better from the point of view of the logical possibilities in the case—and without prejudice to whatever statistical studies may show to be the most common line of sequence—not to say categorically that credit restriction by the banks decreases production *because* it reduces prices. Credit restriction must certainly bring reduced production and unemployment if prices are generally rigid or "sticky" and do *not* fall. And also, of course, reduced production and concomitant unemployment must ensue if prices of commodities do fall while wages do not.⁵

But whatever criticism one may make of particular sentences in Cassel's statement, it remains true that he did emphasize the possibility that the policy being followed, would lead to business depression and unemployment. It is also true that the policy in question was even accentuated in the succeeding year, that some of the Federal Reserve banks charged even higher discount rates than they were already charging when Cassel made his comment and that, in addition, securi-

⁵ This result need not follow, of course, if the reduced prices are consequent on greater productive efficiency and larger output instead of being due to decrease of circulating medium.

ties were sold by the Federal Reserve banks in the open market, thus further tending to reduce the circulating medium and the demand for goods. And we did have depression, both long and severe.

Under these conditions does it not seem that economists might reasonably have been expected to emphasize and re-emphasize the very great importance of central banking policy and, especially, to stress the serious dangers of sharp and persistent bank credit restriction? Average wholesale commodity prices were already lower in the earlier months of 1929 prior to the stock market crash than they had been in 1928⁶; and the prices of 1928, though a little above those of 1927, were definitely lower than those of 1926. It can hardly be argued, therefore, that this persistence in restrictive action was necessary or desirable *to prevent price level inflation!*

II

YET SCARCELY HAD THE BREAK OCCURRED than, despite the warning of Cassel, the view began to gain support among economists that the stock market crash and the downward movement of business came upon us *not* because of this restrictive action of the Federal Reserve banks but because they did not apply such restriction sooner! The thought seems to have been that failure to restrict credit earlier encouraged stock market speculation and a rise in the prices of corporation stocks well above their "normal" values, that such (assumedly) speculative rise of prices of stocks would probably be succeeded by a fall, that this fall of stock prices would destroy business confidence and that thus business depression would ensue.

To this opinion there are a number of cogent objections.

⁶ See the *Federal Reserve Bulletin*, January, 1930, p. 30. The figures of the Bureau of Labor Statistics for price levels over many years can be found in the successive issues of the *Federal Reserve Bulletin*.

First, whatever height stocks attained at this time cannot be regarded as unreasonably high *merely* because stock prices fell so low in the succeeding depression. If the depression had been avoided, business activity *and* prices *and* corporation incomes would have remained high and relatively high prices for corporation stocks would have been justified. One may well ask with *what* standard of reasonable values were these allegedly speculative prices of stocks compared? Has any economist who holds the view herein criticized, taken the pains to work out what would have been "normal" prices for these stocks in case the depression had *not* come and to compare *such* prices with the prices ruling before the stock market break?

Second, it is not at all demonstrably the case that a slump in the stock market will, of itself, induce such lack of business "confidence" as to bring significant depression. There was such a stock market slump in 1903, called "the rich man's panic of 1903," which was not accompanied, or followed in any short enough interval so that the sequence could be fairly regarded as causal, by serious business depression. This is not to deny that business activity may have been a shade less in 1904 than in 1903. But 1904 was a year of fairly active business nevertheless and so were 1905 and 1906. And the considerable stock market reaction in the summer of 1946 has not, to date, been followed by business depression.

Third, even if it were sufficiently demonstrated that a stock market slump would of itself be likely so to affect the minds of business executives as to reduce greatly their borrowing from banks and their demand for commodities and labor, there seems good reason to believe that any such tendency could be completely or, certainly, mostly offset by an easy credit policy of the Federal Reserve banks. Federal Reserve rediscount rates could be lowered. The Federal Reserve

banks could purchase eligible securities in the open market, thereby giving increased buying power to those from whom the securities were purchased and giving, also, increased reserves and lending power to the various member and non-member banks and thereby indirectly (through the lending of these banks) increasing demand deposits and buying power.⁷

⁷ The same answer could logically be made to those persons who contend that stock speculation (e.g., in 1928-1929) "takes money away from legitimate business,"—if there were any convincing evidence that such speculation does actually require the use of any appreciable proportion of the circulating medium.

In this connection it may be appropriate to comment on a passage from a recent article by Lloyd A. Metzler, entitled "Business Cycles and the Modern Theory of Employment" (*American Economic Review*, Vol. XXXVI, June, 1946, paragraph at the top of page 286). Mr. Metzler says:

"It is hardly necessary to point out that Say's Law of Markets is no longer a widely accepted economic doctrine. One of the principal achievements of the modern theory of income and employment was to emphasize that savings do not constitute a demand for capital goods; in large part, they constitute simply a demand for legal evidences of wealth, such as stocks, bonds, and savings accounts. A substantial portion of the demand for investment goods comes from business men, and is not directly related to the level of income. It is therefore entirely possible, indeed at most times probable, that an increase in total output will increase the total supply of goods more than it increases total demand; some of the increased income will be used in the purchase of previously existing assets, and will not represent a demand for currently-produced goods. Hence, general overproduction is a possibility which must be taken into account."

If we assume that demand for such "legal evidences of wealth" undergoes a vast relative increase in a relatively short period; if we suppose that those who sell these "previously-existing assets" to the new purchasers of them do *not* use the proceeds of such sale to purchase "currently-produced goods" but in turn themselves buy other "legal evidences of wealth" from other sellers who in their turn buy still other "legal evidences of wealth," and so on and on, then it must be admitted that some part of the circulating medium is both *withdrawn* from the "currently-produced goods" market and, for a period, *kept away from* that market. If, further, the proportion of circulating medium so withdrawn is *considerable*, and if prices in the currently-produced goods' market are "sticky" and if there is no easing of bank credit nor any other policy directed to increasing the total of circulating medium, there will obviously be less demand for "currently-produced goods." In that sense, it can then be said that "general overproduction is a possibility which must be taken into account!"

But before the reader consents to the view that there is anything of appreciable importance in what Mr. Metzler calls "one of the principal achievements of the *modern* theory of income and employment" (italics mine), there are several points of which he should take careful note. First, Metzler's statement gives no basis for concluding that there is "overproduction" except as there is price rigidity. Second, it does not show that there would be such "overproduction" *even with* such price rigidity *except* because of a decrease of circulating medium in the "currently-produced goods" market consequent on the use of more of it in the "legal evidences of wealth" market; and this difficulty could be obviated by an easy credit policy which would fully replace any such circulating medium thus withdrawn, by an equal addition of circulating medium. Third, so far as stock market speculation is concerned, it appears that vast exchanges are effectuated with the use of relatively little currency. The late James Harvey Rogers showed, in his brilliant but rarely cited article entitled "The Effect of Stock Speculation on the New York Money Market" (*Quarterly Journal of Economics*, Vol. XL, May, 1926, pp. 435-462) that, having due regard to "the mysterious economics introduced by the operation of the Stock Clearing Corporation, . . . for the three-year period May 1, 1922

Certainly the *assumption*, without any convincing proof, that some inferential tendency of a stock market slump to bring business depression, absolutely *could not* be offset by a properly adjusted Federal Reserve policy, is wholly gratuitous, however numerous or distinguished the economists who make that assumption.

During the Nineteen Thirties the view even gained currency among economists—and I have heard it argued vociferously—that banking policy had demonstrated its ineffectiveness to stabilize business and the price level. Yet in fact we did not have, during the period from 1928 into the depression years, a banking policy both wisely adjusted to the purpose and determinedly persisted in. A careful study of banking policy and of business during the period in question does not demonstrate that banking policy *could not* maintain reasonable stability. Rather does it lead to the conclusion that banking policy affects business activity powerfully and that, in this instance, an inept policy worked powerfully to reduce both business activity and employment as well as the price level.

But then it has been argued, by various economists, that, in any case, it is impossible for banking policy—or any purely monetary policy devoted to increasing the circulating medium—to bring business back near to normal in any reasonable period, once depression has become acute. For, it is contended, the increased money (or bank deposits subject to check) will in any case merely be hoarded. Depression psychology will prevent borrowing from banks for business

to April 30, 1925, the purchase prices of securities bought on the New York Stock Exchange were paid for with a deposit currency having a velocity of turnover of approximately 1,100 times a year. Or . . . the efficiency of a dollar of bank deposits in transferring stock exchange securities is approximately equivalent to that of \$37 in ordinary personal and commercial use." (See pp. 444-445.) And Dr. Rogers went on to say (p. 445): "In fact, when it is borne in mind that, on account of those high velocities, the existing volume of such speculations for the past three years was financed with an average of approximately \$15,000,000 of deposits, is there any wonder that no observable influence on New York money-market rates can be traced?"

expansion, however large member and non-member bank reserves become through favorable Federal Reserve policy. Depression psychology will prevent any person or persons from whom the Federal Reserve banks purchase securities, from either investing or spending the money so received! And if the federal government directly supplements Federal Reserve policy, printing billions of dollars of new money which it then pays out to buy back or redeem federal government bonds, this new money will also be hoarded, every dollar of it, and so will have no effect toward increasing the demand for goods and restoring employment! In this view it would appear that if each person in the country, during a period of depression, were put into possession of more money than before—whether twice as many dollars or 100 times as many or 10,000 times as many—there would nevertheless be no appreciable increase in spending, no increased demand for goods and no stimulus to business and employment! Instead, production would remain low or even sink lower, spending would remain low or even become less, prices of goods would remain low or fall even lower! All this, of course, is preposterous nonsense but it is to such a conclusion that those economists must inevitably be driven who do not admit that monetary policy can possibly promote recovery from depression.⁸

It may be interesting, in this connection, to examine the statements of a member of the Federal Reserve Board, Adolph C. Miller, who had previously taught economics at Harvard, Cornell, Chicago and the University of California. This statement was made to the same committee, the Banking and Currency Committee of the House of Representatives, by

⁸ Even then, when and if government is driven to the direct employment of labor, this would be a use of monetary policy in a very real sense if the labor so hired is paid with new and additional circulating medium. If the labor is not so paid, then the withdrawal of money (by taxation or by borrowing) from those who might otherwise spend it themselves, may decrease employment in other industries as greatly as it promotes employment in the industries encouraged by the government spending.

whom Gustav Cassel was questioned just two days later. Following are the questions of the committee chairman and Mr. Miller's reply:⁹

The Chairman. I notice this, Doctor Miller, that following the activities of the board in the spring of 1923, the wholesale price level went down until, say, September of 1923, to about 97 or 98, which was followed by some irregularity later on in the year and in the early part of 1924, but in midsummer of 1924 the wholesale price level reached the low point of about 95. Was that lowering to that point of 95 the direct result of the activities that were taken by the Federal Reserve Board in the early part of 1923?

Doctor Miller. I would say emphatically no; emphatically no. I would say that prices were down at that time primarily because they went up so high in the previous period and that the whole movement of prices in this period was one toward the ascertainment of a new level. The prices themselves were, so to speak, finding their new level.

Must it now be pointed out that *prices are not alive* and that they cannot "find" their level as the woodchuck finds its hole! Certainly if several of Mr. Miller's colleagues on the Federal Reserve Board entertained the same ideas or other ideas equally wide of the truth, one should hardly be surprised to find a Federal Reserve policy adopted which would lead to calamitous deflation and depression or to great inflation or to alternations of inflation and deflation. And one should find it quite possible to admit that such a policy or policies would then be entirely consistent with the best possible *intentions* and the most conscientious—however misguided—effort to serve the public well!

It should indeed be noted that not all of Mr. Miller's testimony before this committee ignores so cavalierly or denies so categorically any possibility of significant Federal Reserve influence on the general level of prices. Nevertheless, it is hard to believe, in view of his statement quoted above, that he

⁹ *Stabilization Hearings before the Banking and Currency Committee of the House of Representatives*, pp. 295-6 (May 14, 1928).

could have had a very keen realization of how controlling Federal Reserve policy can be.

III

AMONG ECONOMISTS, AS ELSEWHERE, there are various trends and fads which have, each, their little day and then give place to others. At one time the talk and controversy among members of the craft is about "neo-classicism," at another time about "institutionalism," at still another time it is about the theory of imperfect competition, or the Keynesian theory and the idea of "liquidity preference." In the early years of the twentieth century there was great emphasis on detailed facts and on statistical verification, even in problems where statistical studies yielded little if any light. More recently we have had the writings of Keynes, Hansen and others of the Keynesian "school," with little or no attempt at the statistical checking of conclusions on monetary theory but rather just an attempt to build new theoretical systems.

Already in the second and third decades of the century there had been considerable reference to the velocity of circulation of money and bank deposits and to the conditions that induce men to spend quickly or slowly, or even to hoard. Certainly there was some recognition of the possibility that under certain conditions men may tend not to spend their money quickly but to hold it temporarily unspent, awaiting business recovery if various investments are in contemplation, or awaiting a fall—or further fall—in prices so that their money may buy more. This really meant, though the expression "liquidity preference" was not then commonly employed by economists, an inclination on the part of some of the community to keep their resources in "liquid" form—as money or bank deposits.

There was also, I think it may be claimed, considerable understanding among economists—certainly some economists

had such understanding—in the early decades of the century, of the general concept of velocity of circulation. And so there was understanding of the fact that an additional number of dollars introduced into circulation, like the dollars already in circulation, would ordinarily be spent again by those who received them, and still again by the second recipients and so on; and that thus the introduction of this money would be likely to have a more stimulating effect than if it could be spent only once! The new money, like the old, would have “velocity of circulation” although, as has just been noted (paragraph above), velocity is not necessarily constant and precisely predictable under changing conditions. Certainly it is not in the least necessary to use the term “multiplier” in order to understand or to convey understanding that an increase of circulating medium may promote revival from depression. It may be questioned whether anything is gained by introducing this new term to express the fact that money introduced into circulation will be spent more times than once or twice—unless it be regarded as a gain so to fill economic literature with technical terms and make it seem so occult a science as to frighten away the non-specialist citizen from consulting economists’ writings at all! For this is only one among a variety of new terms.

Of course, economists can still write and speak for each other’s delectation. They can still devote time to criticizing each other’s views. They can still seek the plaudits of other—
younger and less noted—economists who may become their admiring disciples, participate in defending their views against dissenting economists, and gain reputations by applying the theories and definitions of their masters to particular cases, or by suggesting minor modifications of these theories. Indeed, the very fact of using many technical terms may help give some of these writers reputation among that part of the

journalistic reviewers and general public who impute learning where there is incomprehensibility!

It might seem to the ordinary intelligent and public-spirited person that economics can be useful in proportion as its principles are presented as simply and clearly as is reasonably possible, and with a minimum of technical terminology. For, in a democracy, public policy depends upon the approval, active or tacit, of many minds and it is important that the truly significant reasons for or against particular economic policies be widely understood. Yet so soon as it begins to be fairly evident that a particular force or set of forces is the most significant cause of an economic evil and the related theory is sufficiently clarified to make possible wide public understanding, it appears that not a few professional economists are seized with a desire to direct discussion into the introduction of new terms, into quibbling over trifles, into holding up inconsequential facts as significant causes, and into suggesting as causes facts which may have no causal influence at all.

But now let us return to "liquidity preference" in its relation, if any, to the causation of business depression. There is a considerable group or "school" of economists whose view it is that very low returns on capital conduce to business depression through causing men to hold idle, waiting for a more favorable conjuncture, funds they would otherwise lend or invest.¹⁰ Because of such hoarding, demand for labor and for commodities is reduced, workers are subjected to unemployment and business activity is decreased.

"The concept of *Hoarding*," said the late Lord Keynes,¹¹ who is generally considered to have been the leader of this group or school of economists, "may be regarded as a first approximation to the concept of *Liquidity-preference*. In-

¹⁰ See J. M. Keynes, "The General Theory of Employment, Interest and Money," New York, Harcourt, Brace and Co., 1936, especially Chapters XIII and XVI.

¹¹ *Ibid.*, p. 174.

deed, if we were to substitute 'propensity to hoard' for 'hoarding,' it would come to substantially the same thing."

It is of course true that few persons are willing to *borrow* at (say) 4 per cent interest when they are confident that the capital thus secured will yield only $1\frac{1}{2}$ per cent or 2 per cent. Nor will they borrow even at 1 per cent if they firmly believe the capital will yield only $\frac{1}{2}$ per cent or nothing at all. And there is no doubt that some persons under some conditions will refuse to lend at rates low enough so that borrowers can pay them from the annual returns of the capital.

But before concluding that the genesis of business depression is to be thus explained, we must raise several important questions.

First, if and when returns are so low on capital as to discourage borrowing, must there not be some *reason* for these low returns? And should we not inquire what such reason may be? What if the low returns which are alleged to be causative of business depression are in fact *caused by* restriction of bank credit? Restriction of bank credit does tend—if prices are somewhat rigid, and also if wages and rentals are rigid even though commodity prices are not—to bring about business depression; and business depression means *low returns on capital*. Also, continued restriction of bank credit does bring, despite a degree of rigidity or "stickiness" in many prices, a general fall in the price level. With such a fall the returns on capital, *measured in money terms*, are reduced even though business does not become less active. The capital may be as effective as before in producing wheat or cotton, automobiles or shoes, electric refrigerators or nylon stockings. But if the prices of these products have fallen since the investment was made, the *dollar* returns as compared to what capital *was* worth in dollars when it was constructed, will be low. Of course in a period of falling prices the capital itself, even if not at all depreciated physically, will be of progres-

sively less monetary value. And thus the return on capital each year may be a reasonably high per cent of the value of the capital *in that year*. But this return will obviously be a smaller per cent of the earlier or initial monetary value of the capital. And hence unless the interest rate which the lender charges the borrower is sufficiently reduced, the borrower must suffer loss. It follows that, when prices are falling or are expected to fall, the potential borrower (if at all understanding) will not be an actual borrower—*unless* at an interest rate which is lower in terms of the per cent on the number of dollars borrowed.

But why should not lenders readily accept such a reduced interest rate in order to be able to lend? Why should not competition at once bring the interest rate down so that borrowing would not be discouraged? Just what is the *raison d'être* of this "liquidity preference" on the part of lenders? May not it, too, at least in considerable part, stem from an inept central banking policy?

If central banking policy—or, equally, the general monetary policy of government—is so directed as to result in a fluctuating price level and in alternating periods of business activity and business depression there will certainly tend to be fluctuations in the interest rate (as measured in money terms) that borrowers are inclined to pay. Yet at the time when demand of borrowers is the lowest and when it is therefore difficult to lend except at a low rate of interest, many lenders will more or less confidently expect—and, on the basis of the fact of such fluctuations in the past, have some reason for expecting—a turn for the better. Such an expectation will make them unwilling—or less willing—to commit themselves irrevocably, for periods of any considerable length, to loans at low interest rates and make them prefer to hold their resources in the form of cash or checking accounts, *i.e.*, in "liquid" form easily transferable, in case of a favorable conjuncture, into some

other form. In case circulating medium *is actually* thus held out of use, the effect may indeed be to deepen any existing depression. But through all our analysis we must hold fast to the fact of some degree of rigidity of prices, including wages, rentals, etc. For if all prices would immediately and adequately fall, then *any* amount of reduction of circulating medium *or* of its velocity of circulation would militate not at all against active business. All goods, including buildings, machinery and other capital, would fall enough in price to be purchasable *without* the use of the withheld funds of the hoarders.¹² And of course, potential lenders unwilling to lend can themselves purchase capital or hire men to construct capital.

In any event, to say that "liquidity preference" (and, therefore, reduced velocity of circulation) may deepen depression is very different from saying that it ever did *initiate* or is likely ever to initiate depression. In the analysis followed herein above, bank credit restriction decreases the circulating medium; with the resulting decrease of demand for goods there is a tendency for the price level to fall but not to fall quickly and adequately; and this decrease of circulating medium and so of demand, *along with* the rigidity of prices, wages, etc., brings declining production, employment and trade.¹³ Then, *because* of falling prices and *because* of dull business, it is quite conceivable that there will be a greater tendency to hold money uninvested and unspent, *i.e.*, a tendency towards reduced velocity of circulation of money and checking accounts (in other words, "liquidity preference"). There is likely to be, also, less inclination to borrow from

¹² If the interest rate (or rates) charged by lenders is somewhat rigid, we can say that it is just one more of the "sticky" prices. Even so, if other prices fall *enough*, there will not be depression.

¹³ For a fuller discussion of some aspects of the theory of business depression, see my *Basic Principles of Economics*, 2nd edition, Chapter VI, and my article on "Policies for Full Post-War Employment," published in this JOURNAL, January, 1944 (Vol. 3, No. 2).

banks, and thus a further decrease of the *volume* of circulating medium. And if business failures bring about bank failures, there is a still further tendency to decrease of circulating medium, since purchases cannot be made by writing checks on failed banks.

For all these and perhaps other reasons, there is the possibility that a depression, once started, and if no adequate remedy is applied, will continue for some time and even grow worse. And in this process, as we have seen, reduced velocity of circulation ("liquidity preference") may quite possibly play a part. But is there any evidence—have any of the economists of this "new" school ever presented convincing evidence—that business depression ever has been or is at all likely to be *initiated* by a "liquidity preference" which manifests itself *independently of any adverse banking or general monetary policy*?

Conceivably, a long period of active business with the price level stable or slowly rising would generate such an *expectation* among lenders of receiving their *customary* favorable returns that, when credit restriction by the banks reversed this trend, some of these lenders would for some time refuse to accept low enough interest rates to continue lending. And this might be not because they were anticipating an improvement for which they desired to be "liquid", but just because they would have become *habituated* to the higher returns. It might be because they would have come to think of these returns as part of the fundamental nature of things and so would be unable, for some time, to reconcile themselves to accepting any less. Such an attitude is hardly to be termed "liquidity preference" but is rather mere obstinacy based on habituation. Here again, however, the initiatory influence does not come from a declining velocity—if, indeed, velocity does so decline—but from a restriction on the volume of cir-

culating medium from which restriction the other phenomena flow.

Of course it may be contended that, in the absence of any business or price level fluctuations from unwise monetary (including banking) policy, the returns on capital might conceivably become so low—conceivably less than enough to cover depreciation—that many recipients of money would hold it indefinitely rather than invest in productive capital. If no gain at all could be realized from investment in buildings, machinery, steamships, etc., and especially if there were an average loss, one who wished to provide for his old age or for the education of his children would do as well or better just to lay his savings aside in the form of money (at any rate if he could count on its being stable in value or purchasing power) until such time as he might need these savings to live on. Could this be called “liquidity preference”?

But such a condition, *with* wise control of the volume of circulating medium, would not tend to bring business depression. If so much money were hoarded as to threaten reduction in the demand for goods and in the general level of prices, a wise monetary policy would provide for the issue of enough additional money (and/or bank credit) to maintain the price level. This would mean that the demand for goods in general at this price level would *not* decline, for such decline would bring the price level down. A sufficiency of money to maintain the price level would, by that very fact, be a sufficiency of money to maintain the demand for goods in general. Hoarders laying aside money for future use could be permitted to do so freely, yet there need be no disrupting decrease in the demand for goods and labor. Obviously—though the uncomprehending may deny this—there will be some limit to the amount of money wanted for hoarding, since each hoarder would naturally *apportion* his available

money (or money and bank deposits) between his current needs and his anticipated future needs and neither would nor could hoard all of it.

Capital is productive but its marginal productivity decreases as the amount of capital in relation to labor and land increases. And thus it could *conceivably* happen, as just assumed, that a widespread and continuing spirit of thrift would so increase the amount of capital as to bring its marginal net productivity rate and, therefore, the rate of interest, close to the zero point or even below zero. However, as the marginal productivity of capital approached zero, an increasing number of persons would begin to show a preference for keeping their savings in the form of money,—or of gold, platinum, silver, diamonds or other valuable and easily stored commodity not subject to appreciable physical depreciation. And so there is some reason to doubt that the average net marginal productivity of capital would ever go below zero or, even, go quite to zero, no matter how widespread the spirit and habit of thrift might become.

There is, however, another aspect of the matter of gain from saving and capital construction, *viz.*, taxation. The average net marginal productivity of capital may be (say) 8 per cent. But if a general property tax takes nearly half of this and if a high progressive income tax plus, perhaps, an excess profits tax takes much or most of the remainder in those years when yield is high, while leaving the owner to suffer loss in bad years, then the average per cent on capital *to the owner of it* can be very low indeed. In such circumstances the considerations as to hoarding presented in the paragraph above would be entirely applicable. But, as indicated in the paragraph second above, this fact need not bring business depression, provided there is a monetary policy calculated to maintain a stable price level.

If, however, some of the "liquidity preference" theorists are convinced that hoarding brought about by a low rate of return consequent on such taxation would tend to depression, they have open to them a very simple remedy. Let them *depart from the conspiracy of silence against the taxation of land values*. Let *them* become the *leaders* in attacking the prejudice that stands in the way of this reform. Let them *point out* to their considerable clientèle of readers that a tax appropriating more or, even, practically *all* of the annual rental value of land would not reduce by one iota the net per cent return on capital to those who save and make capital construction possible. Let *them* emphasize, *even though others do not*, that the extra revenue thus gained would make possible a large reduction in the taxation of capital, thus leaving to the investors in capital those larger per cent returns for the lack of which these "liquidity preference" theorists believe potential investors refrain from investing and thereby help to precipitate business depression.

IV

AMONG THE "EXPLANATIONS" for the depression of the Nineteen Thirties is the statement that the rate of increase in the population of the United States had slowed down and *therefore* the demand for new housing had slackened. Another and fundamentally identical alleged cause is that there was no *new* industry established in the Nineteen Thirties, such as the automobile industry, to provide employment.¹⁴

¹⁴ See, for a discussion favoring both of these hypotheses on the cause of business depression, Alvin H. Hansen, "Fiscal Policy and Business Cycles," New York, Norton, 1941, Chapter I. With regard to the first of those mentioned above, that having to do with population growth, Hansen says in a footnote (p. 45):

"It has been argued that cessation of population growth should be favorable to employment, since the supply of new workers in the labor market would be reduced. But it is easy to show that population growth, if it occurs in a period of territorial expansion, raises the demand for labor more than it raises supply. Thus, the volume of extensive investment associated with the net addition of one worker involves capital outlays on a house, amounting to, say, \$4,000, and outlays on plant and equipment amounting to an additional \$4,000. Eight thousand dollars of investment represents a

There is a wealth of evidence to show that most human beings have enough unsatisfied wants so that, if for any reason they do not need or want goods of a particular kind, such as houses, they will buy other goods—more and better clothing, motor boats, electric refrigerators, musical instruments, books and newspapers, additional and better tables, chairs, rugs, etc., or even enlarge and beautify the houses they have. Or they will spend more in educating their children or invest more in the purchase of productive capital. Those who do *not* have any desire to spend money will, presumably, not work to earn money, and the quantity of goods produced to sell will therefore be lessened. If the population becomes smaller the volume of goods produced will presumably be smaller. In any case, the assumption that if and because men do not want more or larger houses, therefore they will probably spend less in any appreciable degree—*i.e.*, that they will have an appreciably greater tendency to *hoard* their money—and thereby bring a substantial decrease of demand for goods in general is *utterly gratuitous*. And in the absence of such an *assumption*, the entire argument has no significant relevancy.

It is the same with the argument in regard to the "new"

far greater effect on the demand for labor than the effect on supply of one additional man-year of labor."

Economists have many times insisted that demand is not merely desire but depends on purchasing power. Why does not Hansen tell us precisely how "one additional man-year of labor" provides the purchasing power for a demand amounting to \$8,000?

There is, too, no sign of understanding, in the quoted passage, of how capital comes into existence through saving. Those who wish to invest in the construction of capital must save, *i.e.*, deny themselves present goods. What they might have spent for such present goods can then be spent for capital or for the construction of capital. There is here no increase in demand for goods in general but merely an increase in demand for capital balanced by a decrease in demand for consumable goods. Of course, an increase in the volume of circulating medium may increase the demand—at current prices—for goods in general and may thus bring about a rise in the price level.

It may, indeed, be easy to say, but certainly is *not* easy to show, "that population growth . . . raises the demand for labor more than it raises the supply."

Perhaps it may be appropriate to add that demand for labor is commonly supposed, by economists, to have some relation to the productivity of the labor. Hansen seems to write, here, as if demand for labor depended on the housing and machinery "needs" of the laborers!

industry. Presumably such a "new" industry increases employment because people want to buy its product or products. But if the particular new products (*e.g.*, automobiles) had never been invented, are we to suppose that those who have bought these goods would not have spent the money for anything else? Would the money so spent have been merely laid away in safes or otherwise and thus have had no more effect on demand than if it did not exist?

Even if it be assumed that some previously unenjoyed product is so enticing as to make people much more eager to buy it than they would be to buy anything else, are we to suppose that they will not, for the most part, find the means to purchase it by economizing on, *i.e.*, manifesting a *decrease* of demand for, *other* goods? And if in their eagerness to buy they borrow from others, must not the lenders then decrease *their* purchases of goods which otherwise *they* might buy?¹⁵

Or it is intended to argue that when a "new industry" is introduced, a larger volume of bank credit is extended in proportion to bank reserves than there otherwise would be? Or that velocity of circulation is thereby increased? Just *how* and *why* is it supposed that the development of new industries saves us from depressions and on what basis is it concluded that not to have the new industries subjects us to greater risk of having depressions? If those who so argue do not mean to say that the lack of new industries tends to de-

¹⁵ On pages 39 and 40 of his "Fiscal Policy and Business Cycles," Hansen compares the decade of the Nineteen Thirties with the fourth quarter of the nineteenth century "with its deep depressions of the Seventies and the Nineties." In a footnote (p. 39) he goes on to say:

"It was in this period, when the railroadization of the country was increasingly reaching a saturation point, that Colonel Carroll D. Wright, Commissioner of Labor, made his famous declaration with respect to the exhaustion of real investment opportunities. . . . The declining rôle of the railroad was, indeed, the most significant single fact for this period and offers the most convincing explanation for the chronic hard times, particularly of the decade of the nineties. . . . While others were stressing superficial aspects, Colonel Wright placed his finger upon the really significant cause of the world-wide stagnation."

Must one not assume from the above, that, in Professor Hansen's opinion, those who emphasize the influence of a substantially increasing and of a substantially decreasing volume of circulating medium in relation to production and trade, are "stressing superficial aspects"?

pression by virtue of somehow keeping down or reducing either the circulating medium or its velocity of circulation,¹⁶ then what do or can they mean? And if they do mean this, why do they spend so much time attempting to trace depressions to so problematical an influence, while they stress so little as a cause the sharp and persistent credit restriction of the Federal Reserve system in 1928-1931, which tended so directly and clearly, as did similar credit restriction in 1919-1921, in the direction of reducing circulating medium and the demand for goods? Why must some economists try so desperately to trace depressions to causes which are so problematical, so relatively inconsequential and, sometimes, so fantastic, instead of emphasizing particularly a powerful cause, demonstrably capable, in conjunction with price, wage, rental and interest rigidities, of producing severe depression and clearly in operation prior to and even well after the onset of both of these business depressions?

It is as if, following a violent earthquake, the brick walls of

¹⁶ Hansen says ("Fiscal Policy and Business Cycles," pp. 37-8):

"Thus, if technological developments and innovations tend to favor a rapid expansion in real investment, money incomes may be expected to rise, and the money supply and its utilization (MV) may be expected to adjust itself to these conditions. If, on the other hand, the underlying technological developments are unfavorable to a rapid expansion of real investment, money income will fail to keep pace with output and the secular trend of prices will be downward. Here again the money supply (M) and its utilization (V) adjust themselves to the demands of the underlying real factors."

Does this mean that with "technological developments and innovations," new gold mines will automatically be discovered, so that a country on the gold standard will have increased coinage? Or does it mean that the governments of countries on inconvertible paper standards will not only increase their issue of paper money but will time these increases to these "technological developments and innovations"? Or does it mean that there will automatically be additional extension of bank credit regardless of the sufficiency of bank reserves? Is not any of these suppositions rather gratuitous?

And how about the velocity of circulation of money (V)? Is it assumed that a bookkeeper, salesman or mechanic who receives (say) \$50 a week and who has previously been spending his weekly wage or salary gradually so as to make it last until the next week's pay is due, will, because of "technological developments and innovations", begin spending each week's wage the first day or two after receiving it and will cease to worry about how his family will live for the remainder of the week? Or will corporations and other business units thus spend their funds more quickly rather than merely spend for new kinds of capital instead of increasing or replacing older kinds?

Without insisting that new ideas of ways to spend or invest money could never, under any circumstances, influence velocity of circulation at all, we can at least fairly ask for something more than the blythe assumption that "the money supply and its utilization (MV) may be expected to adjust itself to these conditions."

a tall building come crashing to the ground. There is lengthy discussion among men of learning as to the cause or causes of the building's fall. At first a few mention especially the earthquake. But more and more the learned articles and books are devoted to speculation as to whether great emphasis should not be placed on a fact noted by a few surviving bystanders. These bystanders had seen, just before the crash, a sparrow poised on the roof and had noted that the bird leaped into flight only about a second before the building began to collapse. After considering the testimony of these observers, some of the most noted of the professors conclude that the major cause—or one of the major causes—of the building's crash, was probably the backward pressure of the sparrow's legs as he leaped forward and upward from the roof!

But surely such writing by professional economists—if it be not ignored by the non-specialist reading public—must be a source of confusion and must work against rather than for the adoption of wise policy. Perhaps it would be better if more economists would pause, on occasion, from their interest in this or that latest formula or will-o-the-wisp of theory and ask themselves what, after all, economics is chiefly for.¹⁷

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¹⁷ It is important to point out, however, that not all economists have meekly followed the lead of the "prophets of a new economics." The late Henry C. Simons of the University of Chicago was one of their most able and persistent critics. See his articles in the *Journal of Political Economy*, "Hansen on Fiscal Policy," L (1942), pp. 161-96, and "The Beveridge Program: An Unsympathetic Interpretation," LIII (1945), pp. 212-33. Reference should be made, too, in this connection, especially to the recent book by George Terborgh, "The Bogey of Economic Maturity," published by the Machinery & Allied Products Institute (Chicago) in 1945.

Sugar Cane and Coffee in Puerto Rico, I

The Rôle of Privilege and Monopoly in the Expropriation of the Jibaro

*Ye friends to truth, ye statesmen, who survey
The rich man's joys increase, the poor's decay,
'Tis yours to judge how wide the limits stand
Between a splendid and a happy land.¹*

OLIVER GOLDSMITH

By RAYMOND E. CRIST

I

WHEN COLUMBUS DISCOVERED a few tropical islands in the Western Hemisphere instead of a new route to the fabulous riches of the East Indies, he lost favor with the King and Queen of Spain. Ere long, however, the tiny islands of the Western Indies assumed great strategic importance when Cortez and Pizarro sent back to their sovereigns their amazing reports of conquest in the wonder Empires of the *Aztecs* and the *Incas* on the continents beyond. For the constantly warring states of northwestern Europe, also beckoned by glittering visions of gold, began to expand to the further side of the Atlantic. To gain a foothold in the Caribbean—in those days when might frankly made right—was no easy task: the weakness of France, England and Holland was evidenced in the very small crumbs of islands they were able to snatch from the rich Spanish table. These insignificant islands—they were as petty cash to the Spaniards, who controlled the rich mines on “the Main”—were colonized and fortified as outlying possessions of the several mother countries. The history of the Antilles became an accurate reflection, in miniature, of the internecine wars of Europe. On these lovely tropical shores, the greed, the injustices, the dis-

¹ From “A Deserted Village.”

eases and the fierce religious hatreds of Europe were brought to a focus.

So great was the lure of gold and adventure on the continent that the Spaniards actually encountered serious difficulty in maintaining on their islands garrisons of sufficient numbers to defend them against the enemy countries. We need not raise a smug eyebrow at such a manifestation of greed, for if the California of the Gold Rush days had been as accessible to English colonists in the seventeenth century as was Mexico to the West Indian Spaniards in the sixteenth century, the lands of the English colonies on the Atlantic Seaboard might well have been passed over in neglect. Because the Island Spaniards were blinded by the gold beyond, fertile regions, which, by modern standards, were richly endowed with natural resources, for centuries were not made to produce enough to pay the expenses of government.

The result was that the Philippines, Cuba and Puerto Rico—at times even Venezuela, Florida, and Louisiana—were subsidized from the treasury of New Spain in amounts varying from three to four million dollars a year. Meanwhile, the English, French and Dutch, lacking immediate access to the gold and silver mines, developed divers other techniques for conquering fortune: their buccaneers lay in wait for the great Plate Fleets of the Spaniards and plundered their bulging cargoes; they captured Negroes in Africa and sold them to the Conquistadores for use on the plantations that were springing up all over the new Spanish possessions. However deplorable, it is a matter of historical record that relatively few sought out the Caribbean Islands—Spanish, English, French or Dutch—inspired by a motive higher than the desire to extract the greatest possible wealth in the shortest possible time. Among the Islands, Puerto Rico fared no better than the rest.

II

VERY EARLY in the history of Puerto Rico, once it was clear that little gold could be uncovered on the island, the attention of the crown officials was directed to the possibility of deriving wealth from the production of sugar. The Treasurer, Auditor and Commissioner of Puerto Rico, in a communication to the Crown dated June 25, 1529, states that "in order to enrich the island, and to give (industry) a start thereon, four or five sugar mills are necessary, but since this is a costly enterprise the private citizen does not dare to undertake it."² The evidence shows that government subvention was not slow to follow.

These islands, which were early known as 'sugar islands', were by nature adapted to any form of tropical agriculture. Yet even in the beginning little diversification of crops was practiced. Because it offered the quickest way to wealth by agriculture, cane growing was the common choice. Sugar was still in Europe a medicament bought by the ounce from the apothecary. Its high value in the European market, and the relative cheapness of its production in the Indies, once the slave trade was efficiently organized, made its cultivation an extremely profitable business.

Many efforts were therefore made to safeguard the sugar plantations. By Royal Cédula, dated January 15, 1529, no sugar plantation, or anything necessary in its operation, including slaves, could be forcibly sold to satisfy debts, unless the King was the debtor. Albeit acts of God were operative then as now, man-made regulations kept the business going. In 1615 all the sugar mills in Puerto Rico were destroyed by hurricane; four new ones were built with government funds in 1620.

In the Spanish Empire the left hand was not always aware

² Fco. López Domínguez, "Origen y Desarrollo de la Industria Azucarera en Puerto Rico", *Revista de Agricultura de Puerto Rico*, Año X, No. II, p. 49.

of what the right hand was doing. Many sugar plantation owners, wishing to sell their properties and liquidate their debts in order to go to Mexico or Peru, were forbidden to do so by a decision of the Audiencia of January 20, 1534. Yet, at the same time, extremely high duties were levied on Puerto Rican sugar in the port of Seville, where all home-coming boats from the New World were required to land. To these high duties were added the tithes of the church, and thus were consumed large quantities of capital which might otherwise have been reinvested in the sugar industry.

With these aids and handicaps, the industry held its own in the two centuries from 1600 to 1800 without much prospect of becoming big or flourishing. Actually, a somewhat larger quantity of sugar was produced on the island of Puerto Rico during the second half of the sixteenth century, than during the second half of the eighteenth century. Taxes and regulations of Church and State would early have sounded the death knell of the industry, if they had been vigorously carried out, but the motto, *se obedece pero no se cumple* (compliance without obedience), was skillfully practised in the colonies. In Puerto Rico contraband commerce with foreigners assumed large proportions. Witness the statement of O'Reilly in his report to the King in 1765: "This illegal commerce, which in other regions of America has occasioned so much damage to the King and to the commerce of Spain, has been very beneficial to Puerto Rico."³ And the capital derived from this source was no small item in the development of the sugar industry. In the early nineteenth century, during the revolts of Spain's colonies in the New World, in the course of which many Spanish sympathizers escaped to Puerto Rico, French and English planters from neighboring islands and from Louisiana took advantage of the Cédula de Gracias which granted foreigners the privilege

³ Fco. López Domínguez, *loc. cit.*, p. 55.

of settling in the Spanish Empire. They came to Puerto Rico with their wealth, their slaves, and their experience in tropical agriculture. The influx of capital was especially timely. After the other colonies achieved their independence from Spain, Puerto Rico no longer received from the Viceroyalty of Mexico the money which, for some two centuries, Spain had taken from the richer colony and allocated (*situado*) to the impoverished garrison of Puerto Rico, and which had served to cover the costs of the civil administration of the island.

In 1880, in order to improve the situation of the planters in Puerto Rico, Governor Eulogio Despujol in an official letter to the Ministry of Overseas Affairs made the following recommendation:

The ports of the United States of America, constituting, by virtue of their proximity, the natural market for the products of the Antilles, should, in our commercial interest and in order to promote and facilitate the entrance of our products, be open (to us) by treaty, and although political interests demand that commercial relations between the peninsula and its provinces be maintained and reenforced, it is convenient, as well as most urgently necessary, that the most valuable products of Puerto Rico, such as sugar, tobacco and coffee, should have steady markets close at hand for their best development.⁴

The order in which the principal crops are listed is significant: because of its long tradition, sugar comes first, although in the previous year, 1879, the value of the coffee exports exceeded that of the sugar exports. And the value of the coffee exports steadily increased until by 1896 it was three times as great as that of sugar.

Sugar production, in spite of all efforts, had steadily declined—from 115,700 tons in 1872 to 64,000 tons in 1897—and for valid economic reasons: during the ten years preceding 1898, the price of sugar in Puerto Rico had fluctuated between 1.7 and 2 cents a pound.

⁴ Quoted by Fco. López Domínguez, *loc. cit.*, p. 169.

III

THE SUGAR INDUSTRY, favored and promoted at its beginning in the sixteenth century, encountered its first serious competition from the modest, undemanding plants of *Coffea arabica* L., introduced into Puerto Rico in 1736. They did not, like cane, require the best alluvial soil; the virgin, clayish soils of the gentle mountain slopes, rich in organic matter, were an ideal edaphic environment. The climate of the trade-wind tropics, tempered by elevation, exactly suited the coffee plant. By 1760 coffee had become a crop of importance for Puerto Rico, and in 1770 the export production was 700,000 pounds. Coffee production was officially encouraged, and methods of cultivation and of processing the berries were studied, with the result that as production increased quality improved. Again an important though short-lived influence was the government: in 1768 a royal decree exempted coffee, for a period of five years, from the payment of duty on entrance into Spain. The stimulus thus given to the coffee producers was so great that for the last thirty years of the eighteenth century export production of coffee averaged almost a million pounds a year. Except for this initial help, the coffee industry was left to develop without government favors. The influx, during the revolutionary wars, of people from the Canary islands, from Santo Domingo, and even from the Mainland of South America, proved a boon to the industry, because many brought with them—particularly from Santo Domingo—a practiced technique in the processing of coffee. An additional factor in the economic and cultural success of the coffee plantation in Puerto Rico was that it was not unduly large; it required much care but relatively little capital.

By the middle of the nineteenth century the production of "high-flavor" coffee for export exceeded 10,000,000 pounds

a year. Puerto Rican coffee was much prized in the European markets, which absorbed almost 60,000,000 pounds in the fiscal year 1895-96, when the total area in that crop was almost 200,000 acres, or over 40 per cent of the total land under cultivation on the island. The industry naturally supported a large percentage of the population of Puerto Rico, although at a relatively low standard of living as will be seen.

Coffee growing was carried on to a large extent by free labor, because the techniques demanded a certain amount of skill, and the relative smallness of the unit made the keeping of slaves unprofitable. Returns were adequate but not exorbitant. The golden age of the coffee planter was the latter part of the nineteenth century, when coffee was the main agricultural export crop and the chief source of income for half the population. As sugar proved less and less able to meet competitive conditions, coffee came forward as the predominant plantation industry, and encroached, as sugar cane had once done—and was soon to do again—upon land otherwise devoted to food crops and stock raising. Coffee planters were the favored ones of Puerto Rico; their credit was good—too good in many cases—for a few poor years meant that their farms were heavily mortgaged. But good years meant high incomes, new homes, new plantings of coffee trees, trips to Europe for the old folks, and perhaps school in Spain for the eldest son. With the coming of American sovereignty in 1898, part of the market for Puerto Rican coffee in Spain was lost, and a devastating hurricane in 1899 spelled ruin for the crop of that year and the three years that followed. Many coffee growers were temporarily reduced to poverty, but the plantations were forthwith replanted, and by 1903 large-scale exportation was resumed.

IV

IN THE FALL of 1898 the Americans took over an island that was, economically, a mixture of mountain-slope subsistence farming and small-scale plantation agriculture, producing coffee, sugar, and tobacco for an almost non-existent domestic market and an indifferent foreign market. In 1899, of 40,000 plantations, 93 per cent were operated by their owners, *i.e.* coffee growers, largely resident, who were overseers of a vast submerged amorphous mass of poorly paid, poorly fed, poorly clad *jibaros*, suffering from hookworm, malaria, liver flukes and malnutrition.⁵ Sugar in Puerto Rico, with no friend at the court of the international moneyed interests, had failed to keep pace with the technical revolution which had transformed the industry in the last quarter of the century, and the Wilson tariff of 1894, which removed a U. S. tariff preference on the sugar of the Spanish colonies, made Puerto Rican sugar growers give up the struggle. To such a low ebb had the sugar industry fallen that, at the time of the American intervention, Mr. O. P. Austin, Chief of the Treasury Bureau of Statistics at Washington, could report from personal observation that in Puerto Rico "the attractiveness of the sugar plantations as investments is reduced by the fact that many plantations have of late been abandoned as such and turned into cattle ranges."⁶

But, after the Occupation, in 1899, Congress authorized an 85 per cent reduction in the tariff on sugar from Puerto Rico, and, as a result, the harvest of that year—some 40,000 tons from 71,778 *cuerdas*^{6a}—although small, because the hurricane had destroyed about one-third of the crop, was exceptionally profitable to the producers. Sugar sold for about twice what it had been selling for before, and the planters whiffed a bull market. By 1908 there were already 145,433 *cuerdas* in

⁵ Vividly described by Dr. Bailey K. Ashford in "A Soldier in Science."

⁶ Frederick A. Ober, "Puerto Rico and Its Resources," New York, 1899, p. 265.

^{6a} A *cuerda* is equal to approximately one acre.

cane, with a production for export of 277,000 tons of sugar. The era of sugar prosperity had begun.

The United States tariff is designed to protect such products as are grown or manufactured on the mainland. Consequently, with the change in sovereignty, Puerto Rican growers of tobacco and sugar cane, which are produced in the United States, profited from the American tariff. But coffee was left in the cold; it was not grown on the mainland, and it therefore had to compete in the international market with such large scale producers as Brazil. Local Puerto Rican growers of sugar cane soon had Americans—individuals or corporations—as neighbors in the lucrative sugar business, and these mainland interests were vocal and powerful in Washington; they could fix in advance the price of sugar, irrespective of what the world price might be. The coffee grower had no friends at court; unlike the sugar producer, he never knew what he would get for his crop, the price of which depended on the vagaries of the international market, itself a reflection of a war in Europe, a bumper crop in Brazil, new tariffs here, rumors of war there. Thus Puerto Rican coffee became a stepchild, exposed on the doorstep to the buffets of international competition, whereas sugar, admitted into the mainland family, loudly demanded and immediately received special treatment and special privileges and at once became a spoiled child. Verily, unto every one that hath shall be given, and he shall have abundance; but from him that hath not shall be taken away even that which he hath.

Land values increased rapidly once the island was tied to the continental market and modern methods of commerce and industry were introduced. When the small plantation owner saw the increase in the price of land, he thought it was in his own best interest to sell to representatives of the large landholding companies for what seemed a fantastic price.

The original landholder usually moved to town and became part of the meager middle class; his *peones*, or workers, now bereft of even that scant security commonly found in a patriarchal society, became wage earners, uprooted and landless, at the beck and call of an employer in the struggle for existence—their shadowy birthright sold for a lean mess of pottage. The people were as effectively pushed off the land in this pay-as-you-go process of peaceful penetration as the English peasants had been by the Enclosure Acts, the enforcement of which often meant eviction at the hands of the police. And the results in both cases were the same: the returns benefited only the few, while the many, now landless and displaced, formed a great reservoir of cheap labor. In England, however, some of the landless proletariat gradually emigrated, some were slowly absorbed in the industrial revolution, but in Puerto Rico the process of uprooting the peasantry has been so rapid that chaotic conditions have inevitably resulted, and in consequence adjustments have been painful.

The poet Goldsmith, in "A Deserted Village," depicted the frightful conditions in Ireland where he had lived as a boy during the time when the Irish peasants were being driven from their land because it had been given in great landed estates to English noblemen. The palatial homes of the rich, the fantastic prices of everything, including the food of the poor, the beautiful island where physically 'every aspect pleases,' yet where the people were submerged in poverty and misery, these contrasts were vividly portrayed by the poet as he surveyed the desolate scene in Ireland:

Thus fares the land by luxury betrayed;
In nature's simplest charms at first arrayed;—
But verging to decline, its splendors rise,
Its vistas strike, its palaces surprise;
While, scourged by famine, from the smiling land
The mournful peasant leads his humble band;

And while he sinks, without one arm to save,
The country blooms—a garden and a grave!

Jonathan Swift, appalled at the wretchedness and destitution of the Irish, brought to such an estate by English overlords, wrote a pamphlet entitled "A Modest Proposal for Preventing the Children of Poor People in Ireland from being a Burden to their Parents or Country." This tremendous piece of irony, in which the author proposes, as calmly as a modern business man might suggest importing hams from Poland, that the children should be turned into articles of food, is a fearful expression of burning indignation against intolerable wrongs.

Theodore Roosevelt, Jr., when Governor of Puerto Rico, in 1930, stated more succinctly but no less cogently, "The island seethes with misery."

Let us analyze briefly the process whereby during the past half century, conditions in Puerto Rico have gradually approximated in gravity those of Ireland of two centuries ago: the Congress of the United States, moved partly by the current campaign against land speculation at home, on May 1, 1900, passed a resolution to the effect that no corporation could own more than 500 acres in Puerto Rico. But, since the resolution fixed no penalties for those who violated it, it was not respected. By 1930, violators of the 500-acre law—367 out of a total of 58,371 landholders—controlled almost one-third of all farmland, whereas farms of less than 20 acres, comprising 72 per cent of existing farms, occupied only 12.4 per cent of all farmland. The period from 1900 to 1930 was the golden age for the sugar companies, when according to the *Report on the Sugar Industry in Relation to the Social and Economic System of Puerto Rico*, "sugar was everything and everything was sugar."⁷ In the course of fifty years the industry has absorbed most of the fertile alluvial land of the

⁷ Senate Document No. 1 of the first 1941 Session of the Puerto Rican Legislature.

Island; the control of large landholdings could not have been maintained without control of the railroads, which the sugar industry accordingly built; excellent black-top motor roads, the construction costs of which were contributed in the beginning out of insular funds, but increasingly—since the early Thirties—by the general taxpayer of the United States in the form of federal funds, have naturally been of greater use to the modernized sugar industry than to the neglected coffee industry; exports of sugar products to the mainland have paid for the major necessities of life which have been bought in growing quantities in the continental United States; finally, as brought out in the Report just quoted, compiled in 1941, "the estimated sugar-cane wealth of the island is 36 per cent of all taxable wealth. Yet the sugar industry paid (in 1940) only 23 per cent of all revenues of the Government, while all other taxpaying groups, whose taxable wealth was estimated at 64 per cent of the total, contributed 75 per cent of all revenues of the government,"⁸ although, according to the same source, slightly more than half of sugar's income over a period of years was derived from tariff benefits.

(Continued)

*University of Maryland,
College Park, Md.*

⁸ *Loc. cit.*

The American Wool Problem

By RAYMOND V. McNALLY

PERHAPS IT IS TRUE that the dog is man's best friend, but it is the self-effacing sheep that keeps man warm and comfortable. Men and sheep have been so closely associated for so long a time that it can almost be said that civilization and wool growing are synonymous. But now, according to spokesmen for the sheep farmers, this ancient and honorable occupation in the United States is doomed to extinction unless the government comes to their aid. Viewing the matter historically, one might inquire what this means for American civilization.

Although Albert Churchward insists in his "Origin and Evolution of the Human Race" that man was first located in Africa, it is generally assumed that he originated in Central Asia and that it was in that area that sheep were first discovered. In any event, the sheep was the first animal domesticated by man, and wherever man went the sheep was sure to go. Mighty empires have been founded on wool growing and wool manufacturing. Sheep constituted the chief wealth of Arabia, and it was from Africa that wool growing and wool utilization were introduced into Europe. The Greeks and Romans developed these arts to a high degree of proficiency, and considerable foreign trading was carried on. Later Spain exceeded Greece and Rome in these occupations and became the most powerful nation in Europe. She declined when the Moors were driven out of the country taking with them their knowledge of wool breeding and manufacturing.

Wool was also the basis for the wealth and power of the great British Empire until the eighteenth century when cotton superseded it. In fact, wool was one of the most impor-

tant sources for the loans and revenues of the king in the middle ages; and it was the first specific wool tax—a levy on exports—that brought the rising merchant class into prominence and led to the summoning of the commons to parliament. From that time the great wool merchants were regularly summoned to confer with the king on government finance and taxes.¹

Turning to America, we find that Europeans brought their sheep with them when they settled here, sheep being introduced at Jamestown in Virginia in 1609. In the beginning, manufacturing was a household venture, but in 1643 the first fulling mill was established in Rowley, Massachusetts, and the first woolen mill at Hartford, Connecticut, in 1788. Since that time, wool growing and manufacturing have been developed in this country far beyond the imagination of the first settlers, and the sheep have spread out over the arid and semi-arid plains of the West and Southwest and into the foothills and heights of the western mountains. But apparently this expansion has come to an end, and we are warned that a serious decline has already set in.

As of January 1, 1947, the lamb and sheep population had dropped to 38,751,000 from the high point of 49,807,000 in 1942. At the same time, the United States has dropped from third to fifth place among the sheep raising countries of the world, raising now only 6.6 per cent of the world's sheep compared with 7.5 per cent in 1931-35, while Australia, the leading sheep breeding country, is still in first position with 14.6 per cent of the total. A survey of the major wool-producing areas in the United States made by the *Daily News Record*² estimated that the total wool shorn and pulled in 1947 will be 315,823,000 pounds grease basis compared with 358 million

¹ Eileen Power, "The Wool Trade in English Medieval History" (Ford Lectures, 1939), London, Oxford University Press, 1941.

² *Loc. cit.*, April 8, 1947.

pounds in 1946 and with 459 million in 1942. This is the lowest figure since 1925 when production was 300 million pounds.³ And this in spite of the fact that the demand for apparel wool was maintained throughout 1946 equal to the average wartime mill consumption of more than 1 billion pounds for the years 1941-45, which was double the pre-war rate. Fifty-seven per cent of the requirements for the country's wartime economy was met by imports, and the domestic growers complain that since the end of the war these heavy imports have continued.

Subsidies and Stockpiles

THE WAR, OF COURSE, stimulated domestic production, because the United States government encouraged it during the period of rearmament and the early war years by paying price premiums in the event that trade with the exporting countries might be partially or entirely cut off. In order to support the price of domestic wool, the Commodity Credit Corporation purchased the 1943 clip at ceiling prices based on those prevailing in December, 1941, and this program was extended to each succeeding clip. The support price for the 1946 clip was 123 per cent of parity (1909-14 base). Wool growers were further protected by an import duty of 34 cents, and this was equivalent to 33 per cent of the average price received by growers for the 1945 clip, which was approximately 104 cents a clean pound. Prices to growers averaged about 19 cents a pound scoured basis above the duty-paid import price of foreign wool. The *ad valorem* equivalent of the duties levied on wools finer than 44's imported in 1939 was 79 per cent of their value and 65 per cent in 1943.⁴

For the first three years of the purchase program initiated in 1943, the government was practically the sole consumer of

³ U. S. Department of Agriculture, "Agricultural Statistics," 1942.

⁴ James Gilbert Evans (Chief of Fibers Section, Office of International Trade Policy, Department of State), "American Wool Import Policy," *Department of State Bulletin*, Nov. 3, 1946.

domestic wool and would not sell it at a price lower than that paid to the growers. The result was that it could not meet foreign competition, and each succeeding year found it liquidating a smaller and smaller proportion of the total annual purchase with an overall stock steadily accumulating. During 1946 and 1947 the CCC has offered its wool at less than the purchase price (although it was forbidden by law to sell at less than parity), but nevertheless, according to the recent inventory, there were 468 million pounds still unsold. Why more was not sold in view of the unprecedented demand in 1946 coupled with rising prices, is a mystery, but the ways of bureaucracy are very strange indeed. Thus far the CCC has lost \$37,500,000 of the taxpayers' money and has set aside \$55 million to cover further expected losses. But most grades of foreign wool can now be bought at from 8 to 12 per cent under the price at which the CCC can offer its domestic wool.

The world markets, of course, have been clouded by the huge carry-over stocks which were accumulated during the war under emergency stock-piling programs in which the United States participated. On July 1, 1945, these stocks approximated 5 billion pounds which was about three times the average carry-over stock in pre-war years. Of the total the United Kingdom owned more than two-thirds. Since the war's end, however, the situation has improved substantially. The managing director of the International Wool Secretariat in North America stated on April 8, 1947, that the entire clips of Australia, New Zealand and South Africa were disposed of and old stocks were reduced 40 per cent. Moreover, carry-over stocks in the five Southern Hemisphere wool-exporting countries declined from an estimated 3 billion pounds grease basis on July 1, 1945, to 2,700 million pounds on July 1, 1946. Besides, all of the nations have thus far adopted a policy of orderly liquidation of these surplus stocks through their State trading corporations. In fact,

these corporations are releasing their fine wools so slowly that the price is strengthening rather than weakening. Nevertheless, it is estimated that it will take at least ten years to market this surplus.

For the purpose of exchanging information and forming a permanent study organization, an international wool conference opened in London on March 30, 1947, at which twelve wool-producing nations met. In addition to these matters, there was some discussion about establishing an international commodity agreement on wool similar to the proposed international wheat agreement. Success in this direction, however, is doubtful when it is observed that although the International Wheat Council has existed for more than a decade, it has not yet arrived at an international agreement on the basis of membership from both producing and consuming nations. On April 3, the delegates met again, and it was estimated⁵ that the total wool production in 1946-47 would be 2,905 million pounds and world consumption 3,395 million, thus reducing the stockpile by about 500 million pounds. As of the end of June, 1947, commercial holdings were expected to account for 55 per cent of the total.

At this session, incidentally, the British dominions urged the elimination of, or at least cuts in, the United States raw wool tariff. And the only benefit that the United States derived from the London Conference lay in the fact that the American delegates, who had attended because of President Truman's desire to establish a long-term domestic wool policy, went on to the trade meetings of the United Nations at Geneva beginning on April 10 fully informed about the world situation.

Proposed Legislation

OVER A PERIOD of several months during the first half of 1947, Congress considered several bills that were designed to

⁵ *Daily News Record*, April 4, 1947.

accomplish a dual purpose: Continuation of the price support program until December, 1948, and liquidation of the huge stock of domestic wool held by the CCC in competition with imported wool. It was suggested by representatives of the growers that if the wool support program were discontinued, the price received by the grower would fall to the foreign price, if not lower. The average support price in 1946 was about 42 cents whereas parity was 40.4 cents, rising to 41.5 cents at March 15, 1947. Without support, the price, it was claimed, might drop to 37 cents. But even this price was too high for the wool dealers who on their part were urging legislation to authorize the CCC to sell its wool at 90 per cent of the old parity or about 36½ cents a pound grease basis. The growers, on the other hand, complained that their costs were so high that they needed a price of 45.3 cents, the equivalent of 90 per cent of a new comparable price.⁶

To achieve this end, a number of proposals were advanced calling for (a) an increase in the import duty on apparel wool to equalize costs of production; (b) a fee on imports and foreign wool already stored in this country in addition to the duty; (c) the imposition of quota restrictions on foreign wool limiting the amount that could be imported in any one year to the amount by which annual consumption exceeds annual production; and (d) the maintenance of prices of domestic wools at existing ceiling levels or cost of production plus a reasonable profit by the sale of domestic wools by the Commodity Credit Corporation in line with the price of duty-paid foreign wool at all times, the CCC being reimbursed with funds procured from duties collected on foreign wools imported.

But how would such programs fit in with our foreign eco-

⁶ By "comparable price" is meant that price which bears the same relation to the average parity price of the basic agricultural commodities such as cotton, corn, wheat, tobacco, etc., as the actual price for shorn wool bore to the actual average prices of these commodities during the period of August, 1934, to July, 1939.

nomic and political policy? If our aim is to *reduce* trade barriers in order to promote international trade and world peace, would they not make a mockery of this? From Geneva in the early summer came the answer. Not only were tariff negotiations between the United States and the British Commonwealth group bogging down, but the tension created by the deliberations of the American Congress on the wool question was affecting tariff bargaining all along the line. It was apparent that the kind of action taken by Congress on the wool tariff would serve as a clear indication to foreign countries of what they could expect from this country in tariff negotiations generally. Both Secretary of State Marshall and Under-Secretary Clayton repeatedly warned Congress that the tariff phases of the wool bill might disrupt the International Trade Conference and our entire reciprocal trade program. In fact, so critical did the situation become, that about two months after the Conference had convened, it was disclosed that the Australian delegate had announced his country would seek an adjournment if the wool bill with the tariff provisions was enacted. And to make matters worse, it was feared that such action on Australia's part might even jeopardize the plans for drafting a charter for the proposed International Trade Organization at Havana in November, 1947. Of course, Australia's attitude was perfectly understandable, as wool accounts for 90 per cent of the value of all Australian exports to the United States. Nor did it seem likely that she would lack support for her position. Wool is a principal export of such countries as the Union of South Africa, Argentina and Uruguay, while the contribution of wool to New Zealand's income is greater than that of any other single commodity.

But aside from the international aspects of the matter, what about the direct effect on our own economy? Do the

advocates of such programs really believe that their plans can function all by themselves in an economic vacuum?

Before considering these questions, it might be interesting to refer to still another plan advanced by Dean J. A. Hill of the University of Wyoming as a sample of the kind of thinking that is taking place in this country. According to his idea, all wool, both foreign and domestic, would be purchased by a government agency which would sell at a price equivalent to the average cost of procurement; and the Secretary of Agriculture would be directed to support through purchase operations a price for domestic wool not less than the higher of comparable prices as of January 15, 1946, or current comparable price. Besides, he would also acquire by importation or from foreign-held stocks in this country amounts of foreign wool which when added to the available domestic wool would be necessary to meet the requirements of manufacturers or other consumers at a price per pound equal to the average cost incurred in the acquisition.

Here we have a typical product of the logical mind, for such an ingenious plan as this would plunge the United States into State trading with a vengeance and still further extend government control over the lives of the people. If the government is to determine the quantity and quality of our purchases, we should not be surprised then if one day it actually prescribed and designed our wearing apparel for us.

The Manufacturers' Plight

IT IS DIFFICULT to see what these various schemes are supposed to achieve. Certainly they will not promote a healthy wool industry and take the government out of the wool business by December, 1948. The government will still be the sole market for the sheep farmers, and whether the CCC is reimbursed from import duties or not in order to prevent or minimize losses, the burden will fall in either event upon the con-

sumer or the taxpayer. And if the tariff is raised, then the mills might be priced out of both domestic and foreign markets. And if the mills in turn are compensated by an equivalent increase in the tariff, price resistance might be set up by domestic and foreign consumers that will leave wool more vulnerable than ever to competition from synthetic fibers which are becoming more and more popular every day, particularly in the women's wear lines. In fact, it is estimated that the per capita use of woolen cloth has declined 30 per cent since 1900. Of course this is partly due to changes in living conditions, such as better heating arrangements and improvements in modes of transportation. On the other hand, various industries have been finding new uses for wool, particularly the automobile line, which consumes millions of yards of the medium grades annually.

Moreover, there is at the present time a great shortage of worsted cloth and worsted clothing despite the fact that 1946 set an all-time record for cloth production with 603.5 million linear yards as compared with 493.4 million in 1945 and 371.8 million in 1939.⁷ The demand for woolens, however, has not kept up with the demand for worsteds, and woolen mills have been reducing operations or closing down entirely. It is estimated that imports of raw wool may decline from almost a billion pounds in 1946 to 600 million pounds or less in 1947.

This lessening of demand for woolen goods may be attributed to these causes: (1) Competition from spun rayon and other synthetic fibers. (2) High prices for women's apparel. (3) Rise in general living costs. (4) Disproportionate relationship between the various consumer incomes, some, like those of organized labor, having been gained at the expense of other groups.

While a few woolen manufacturers are urging higher tariffs and had been for many years before the war, most of them

⁷ U. S. Bureau of the Census.

realize that they have nothing to fear from foreign imports. Certainly the lessening of demand cannot be ascribed to foreign competition, for the ravages of war took care of that. Furthermore, our production costs are lower than foreign costs, for 90 per cent of our looms are automatic as against, for example, 5 per cent of British looms. Then also, imports of woolen fabrics have never averaged more than one or two per cent of American consumption. But imports seem to stimulate rather than hinder the domestic industry, for as in the case of fine woollens, they give Americans new ideas in styles and designs and inspire them to do a better job themselves.

What the woolen mills really have to fear is the American consumer, and the trend seems to be toward making better fabrics and increasing production efficiency by using faster spinning machinery and eliminating stoppages and wastages. These developments are forcing topmakers and combers to improve their products so as to fit them for the exacting specifications of their customers. And the spinners are aiming for high quality yarn at high production speeds. But the topmakers during 1946 and 1947 were hampered by a number of difficulties. Absenteeism and union activities in the commission combing mills held production back to such an extent that leading combers claimed they were getting only about 65 per cent of pre-war production. On top of that, domestic wool prices rose because wool was tied to parity and parity was rising every month (from 33.1 cents a pound grease on April 15, 1946, to 42.1 on April 15, 1947) due to the rise in the cost of the things the wool growers buy. At the same time, the prices of foreign wools were increasing because of the heavy buying by England, France and the United States. The result was that the future was somewhat uncertain, and the topmakers were waiting to see what Congress

was going to do about a new wool program. In the meantime a little cheer was given them in the form of a statement to the Fairchild News Service⁸ by a Department of Agriculture official, that the CCC would continue to sell wool at the same price despite the rise of 6 points in wool parity from the March 15th figure to the April 15th figure. This meant that staple fine territory 64's and better would still be offered at 123 cents clean basis to which they advanced March 28 after parity last moved up, and one-half blood staple territory at 121 cents a pound.

Eventually, after many revisions and counter-revisions, Congress passed a compromise wool bill that contained the explosive tariff features, but on June 26, 1947, President Truman vetoed it. Unable to muster sufficient strength to override his veto, both houses of Congress set to work immediately and drafted a new bill which provided only for the resumption of the price support program until December 31, 1948, and permitted the CCC to sell its large stock at less than parity if necessary to meet the competition of foreign wool. This bill became law when the President signed it on August 5.

The Tariff

DISPOSAL of the wool problem relieved the tension somewhat for the woolen manufacturers, but the tariff question was by no means a dead issue. On November 14, *The New York Sun* reported that the Wyoming Wool Growers Association, at its forty-fourth annual meeting, adopted a resolution demanding a wool protective tariff supported by an import quota and "full protection" in the event of the extension of the Reciprocal Trade Agreements Act. It insisted, moreover, that production must be stimulated and increased to meet 60 per cent of domestic requirements. But four days

⁸ *Daily News Record*, April 30, 1947.

later the growers suffered a serious blow to their hopes when the United Nations released the four-volume compilation of trade agreements negotiated at Geneva to become effective January 1, 1948, and to remain in force for three years. In this international agreement, the United States grants tariff reductions, ranging up to 50 per cent, to twenty-two foreign countries, involving 60 per cent of our foreign trade and from 65 to 70 per cent of world trade. So wide an area is affected and so important are the tariff changes, that *The New York Times* of November 16, anticipating by two days its actual publication, hailed the agreement as a "milestone" and pointed out that it embraced some 45,000 items for the entire world and 1,200 commodity groups for the United States alone covering thousands of items.

Regarding raw wool itself, the basic rate of 34 cents per pound clean content on wools finer than 44's was reduced to 25.5 cents, and there were also smaller reductions in the lower grades. Comparable reductions were made in the tariff on woolen fabrics, but it seems that any saving accruing to the manufacturers from the lowering of the raw wool tariff will be absorbed by the rise of 9 per cent in Australian wool prices that occurred in November. These tariff changes produced a mixed reaction among the mill owners, while from the wool growers' camp there rose a wail of complaint and foreboding. Nevertheless, close examination of the international agreement reveals that an "escape clause" leaves the door wide open to the growers. This clause (which applies to raw wool, woolen and worsted piece goods, and rubber) permits the United States to increase the duty if imports exceed 5 per cent (by weight) of the average annual production in this country during the three immediately preceding calendar years. Thus the manufacturers will have this threat constantly hanging over their heads, and we can expect

that some day the same tiresome game will be played all over again.

Uncertainty, however, is an old story with the woolen industry, as it has always been either feast or famine. It has never been sure of its raw material sources, its labor supply or the tariff on wool. Since 1789 the tariff on wool has been changed some thirty odd times, sometimes within one year of enactment. Governments never seem to learn that it is not change so much that hurts business as *constant* change. Men can adapt themselves to most laws, but constant and unpredictable legislation makes for confusion and prevents efficient planning and organization.

It was the War of 1812 that started us on the road to wool protection. From 1816 on, the tariff on wool was designed more for protection than for revenue, and the wool growers have been protected ever since except for the periods 1894-97 and 1913-21 when wool was on the free list. The effect of the tariff may possibly be seen in the fact that the average domestic production for 1922-29, when the import duty was 31 cents, was 317 million pounds and average imports (actual weight) were 146 million pounds, whereas for 1930-39, when the duty was 34 cents, the average domestic production was 427 million and average imports (actual weight) were 65 million.⁹

Woolen manufacturers in turn have always been compensated by an equivalent protection and occasionally by even more than an equivalent. But this is poor consolation to the manufacturers when they much prefer foreign wools because they are cheaper and because their superior preparation for the market requires less labor to convert them into fabrics. "Probably the tariff on wool and wool cloth," writes Professor Malcolm Keir, "has produced more argument and left a bitterer trail of dissension than the duties on any other commod-

⁹ Evans, *op. cit.*, p. 4.

ity.¹⁰ And it is reasonable to assume that the tariff has delayed improvements that have been urgently needed in both of these industries.

There can be no question, however, that a strong, healthy wool-growing industry is essential for the well-being of a country like the United States. Partial self-sufficiency at least is desirable, if only in the event of war. Yet palliatives like tariffs and subsidies will not help us to achieve this objective any more than the decree issued by Charles II that all dead bodies be buried in woolen shrouds stimulated the demand for English wool in 1660. It is causes that must be attacked, not symptoms.

The Growers' Plight

FOR MANY YEARS the ranges have been shrinking. In the first place, the mountain pastures are included in the National Forests, and a charge per head is made for running sheep there in the summer. In the second place, the government's policy has favored small-scale operators, each one being allotted his share of grazing; and whereas flocks of 5,000 or more were once common, now they rarely exceed 1,500. Furthermore, the sheep have been forced to the cheapest, poorest and most remote sections of the range, for they have had to compete with other uses of the land and with foreign sheep that are pastured on cheaper land.¹¹ Still another handicap for the shepherds is the Taylor Grazing Act which requires ownership of commensurate property in order to utilize the public domain, as it is impossible for a new operator to engage in wool growing unless he purchases a going concern which controls the necessary grange rights. The wool growers through their state and national organizations have asked for an amendment to Section 14 of this law to permit

¹⁰ "Manufacturing," New York, The Ronald Press Co., 1928, p. 395.

¹¹ *Ibid.*, p. 397-8.

the outright purchase of grazing lands within the public domain with the government retaining possession of mineral rights.

But there are other problems that plague the sheepmen, for during recent years they have drastically reduced their flocks because of excessively high feed and operating costs and lack of experienced help. Wool prices have not risen proportionately, and the costs have remained high despite the favorable weather conditions of the 1946-1947 winter and the autumn of 1947 which kept supplementary feeding down to a minimum. On the other hand, the weight of the average fleece is being maintained, and in some of the western states has even exceeded the national average of about 8 pounds. When comparison is made with the average weight in 1909 of nearly 5½ pounds and with less than 2 pounds in 1840,¹² it is obvious that considerable progress has been made in the last hundred years.

The increase in weight has been due partly to the tendency of sheepmen to breed mutton or crossbred lambs which are larger animals than the pure bred type. These crossbred types are the result of combining Merino and long wool breeds, and this trend in breeding has been going on for many years due to the allure of higher profits resulting from wider markets. Thus during the last half century sheep farming has changed from a wool business to a combined wool and market lamb business with the wool yielding only 25 to 35 per cent of the annual income from the average flock. But the reduction in the number of pure bred sheep has been at the expense of the quality of the wool. Yet if the United States is to compete successfully with other wool-growing countries, improvements must be made in both the weight and the quality of the medium grade fleeces.

¹² U. S. Department of Agriculture, "Yearbook of Agriculture," 1928.

Breeding and Feeding

ACCORDING TO Mr. J. F. Walker, author of "Wool Production and Marketing," and a practical sheepman himself, these improvements can be accomplished even in mutton flocks and without loss of mutton conformation. He contends that the wool income of this country could be increased by approximately \$50 million if the sheep breeders of the United States were as efficient wool producers as the Australians. Australia, the largest wool-growing country in the world and the supplier of 35 per cent of our wool imports (1937-39), produces 90 per cent staple wool¹³ as against about 50 per cent in this country. She is also producing wools yielding about 10 per cent higher clean and averaging a higher weight in the grease than ours by one pound.

Shrinkage is one of the problems with which American growers have to contend, for it runs from less than 50 per cent to as high as 80 per cent. In tests¹⁴ that were made at Wooster, Ohio, by the U. S. Department of Agriculture, for example, it was found that the Tasmanian fleece yielded 16 per cent more clean wool than the American fleece. This condition can be corrected by better breeding methods, for the same tests showed that the Tasmanian sheep yielded an average 10,000 more fibers to the square inch than the American sheep, or one-third. Density helps to resist rain, dirt and chaff and results in less shrinkage. Moreover, fleeces containing an excessive amount of grease are subject to excessive shrinkage. But besides greater density, the average length of fiber from the Tasmanian ewes was 3.17 inches compared with 2.74 inches from the American sheep.

The quality and uniformity of the fleece, the length of the fiber and the shrinkage conditions are all determined by the care with which the grower selects his rams, and culls and

¹³ Wool of combing length, the fiber running 2½ inches or more.

¹⁴ "Wool Production and Marketing," Chicago, Breeder Publications, 1941, pp. 50-3.

mates the ewes. But while breeding is the prime factor in wool production, the best bred lamb will not produce the maximum quantity and quality if it is not properly fed. Grass and herbage form the bulk of feed for sheep, but these must be of a high protein content and must be supplemented by large amounts of legume hay and light amounts of fairly high protein grains after the pasture season. Then too, the soil in which these grains are raised and the pasture itself must carry certain essential minerals, or these minerals may be fed direct to the sheep. In New Zealand¹⁵ annual top dressing of pastures in early fall is practiced, and more sheep are raised per square mile there than in any other country in the world.

An interesting news item was the reporting of the experience of a sheep rancher in Utah.¹⁶ With the assistance of the Utah Basin Soil Conservation District, he reseeded the range with smooth brome grass, orchard grass, timothy and created wheat grass. Before reseeding, the area supported 900 ewes and lambs from July 1 to September 20. Now this shepherd claims he can graze 1,200 ewes and lambs from July 1 to October, and the average weight of his lambs has increased from 74 to 82 pounds.

From the foregoing it is obvious that there is much that the wool growers in this country can do to increase the quantity and quality of their production and thereby increase their incomes. In fact, almost every move the sheep farmer makes determines the value of his product and is reflected in the cost of every single manufacturing process, from the scouring of the fleece down to the weaving of the yarn into the finished fabric. But good management involves not only production but also distribution; and it is in this department that the American sheepmen are sadly deficient.

¹⁵ *Ibid.*, p. 61.

¹⁶ *Daily News Record*, April 8, 1947.

Marketing

FIRST OF ALL, wool has to be graded and sorted. Grading is done at the warehouse and sorting usually at the mill. In Australia, however, the grading and sorting of the large clips usually take place on the sheep ranches. Rolling and packing of the fleeces by the farmer must be done in such a way as to minimize the grading and sorting expense, if he wants to receive the highest price for his wool. It is said that among the large wool-growing nations, Americans are the worst packers in the world; and this is one of the reasons why many woolen manufacturers turn to imported wools. Not only must the fleece be free of burrs, dung, straw and other dirt, but the kind of twine that is used is important, for paper twine dissolves in scouring whereas sisal twine may go through the manufacturing operations and show up in the cloth. Then additional expense has to be incurred to remove the small bits of twine.

But after the wool has been properly prepared for the market, the next step is to dispose of it. Many American farmers, however, do not even know the quality of the wool they produce or the exact needs of their markets. Prices are usually based on quotations in Boston, the largest wool market in the United States. But in view of the helter-skelter buying and selling that takes place, prices lack stability and growers suffer. In the larger markets, the grading is more refined and the growers receive more informative reports, whereas prices received from local dealers are based on more or less rough classifications.

On the other hand, Australia has a more unified and orderly system subject to a central control, and the wool is sold at auction. Consequently, the wool is not thrown on the market all at once but only enough is offered each month to meet current needs, and the growers receive relatively the highest

prices in the world. At the same time, Australian wool ranks highest in quality as a whole and is the best prepared for market; and the growers attribute this to their marketing system, which has constituted a means of education and encouragement.

Summary

IT WOULD SEEM then that the achievements of countries like Australia and New Zealand are worthy of emulation. Much constructive work, of course, is being done in the United States. For instance, the College of Agriculture at the University of Wyoming has succeeded in adding 3 pounds to the weight of the fleece during the past five to ten years by instructing Wyoming sheepmen how to breed large, sturdy sheep that bear low-shrinkage, high-quality wool. The government also is expanding its research in breeding and marketing practices; but unfortunately, the government seems to have the unhappy faculty of nullifying its constructive efforts by destructive activities. For example, long and short hedging in wool and wool top futures against price uncertainties is a legitimate instrument that wool growers, wool dealers and manufacturers can use to protect themselves from financial loss, but this was made more or less difficult in 1946 by the ceiling prices and the actions of the CCC.

But if wool growing is to survive in this country, it must retain its traditional characteristic of freedom, for from the very beginning of time, the pastoral life has always been the freest element in any country's economy. Thus the sheep farmers must be taught to help themselves, as they must learn more about their business and give the market what it wants. But they cannot gain this knowledge by crouching behind trade barriers and leaning on subsidies, for in the last analysis, competition is the only real educator.

New York

Land Speculation on the Lower Rio Grande

HOW WASTEFULLY, IRRATIONALLY and corruptly we develop our agricultural resources in the United States is well illustrated by Hart Stillwell's recent review in *The New Republic* of the situation in the Lower Rio Grande Valley. The development in the Valley has followed no plan, hence it has been enormously expensive, wasteful and at all times shot through with graft, he notes.

A group would form a land company, buy from 6,000 to 60,000 acres of land, build a pumping plant on the river and canals to the land, and sell the land. Then the landowners would form an irrigation district, vote bonds and buy the irrigation system. Discovering the need of a drainage system, the farmers would form a drainage district and vote more bonds. For schools, highways, ports, courts and flood control systems they would vote still more bonds.

When the great depression struck, the area was bankrupt and the federal government, by invitation, refunded it. It took over the worthless flood control system and thus far has spent \$30,000,000 to make it effective. Other federal millions went for seaports, airports, insect control, crop loans and other doles. Now \$70,000,000 of federal funds are to be spent on a gravity-irrigation system, and a larger sum on storage dams.

"Already," Mr. Stillwell reports, "Valley promoters are beginning to eye people up in Illinois and Ohio and Nebraska, getting ready for the next land boom."

Money spent in developing our natural resources—if it goes into that, and not into waste and graft—is well spent. But when will the American taxpayer demand that adequate provision be made in advance planning to assure that the benefits of development go to the people as a whole, through recapture of the monetary value by taxation, rather than to a small group of leeches, the promoters and the landowners in the affected area? The taxpayers should insist that not one dollar of federal funds be spent on such a project until it is provided that not a penny will be reaped by land speculators. It is better to have a desert in Texas than to bankrupt the country by "blue-sky" financing.

W.L.

The Leadership of an Industrial Society

By PAUL MEADOWS

I

Human Action in an Industrial Society

THERE IS NOT A SINGLE AREA of modern society which does not have its clinics. But even if one were alone in pointing to the danger spots of our civilization, the very sensing of a drift in human values in a particular direction should have a bearing upon the reactions of thinking people. For the enduring power of any society is after all in its human values: whatever happens to them is the key to the future of every other aspect of the culture. The ubiquitous clinics of our society point to a problem of action, a problem which has to do with nothing less than the permanence of the industrial culture.

This statement of issues differs, of course, in many important ways from that of a number of writers on industrialism. One would expect it to contrast sharply with that of the fanatics of industrialism who think in terms of continuing technological expansion, or of stream-lined markets, or of human ingenuity, or of some other phrase which belongs to the golden days of classic industrialism. One would not expect this statement to diverge widely, however, from that of the socialist movement. For socialists of all fifty-seven varieties speak ominously of the collapse of "the system" and of its replacement by a "new order." But their "new order," whether communist, nationalist or gradualist, involves little change in the basic structure of massed mechanization; in fact, that structure is assumed: the changes, if any, are political and imposed upon it. Thus, Marxian socialism states its case very largely in terms of individual income distribution,

and national socialism in terms of national income distribution; in neither instance are the centralization of production and the concentration, to mention only two matters, considered. In other respects, the whole pattern of industrial motivations and the machinery of industrial community life are left intact.

However, the socialists have put us in their debt on one important score: their insight that the future of industrial society is bound up with the processes and fortunes of politics. Classic industrialism boycotted government and sought its neutralization; even the early socialists, not uninfluenced by the anarchist tradition, were unimpressed by the political order. But there is an inevitability about politics which even the most determined classical economist and Marxist is unable to deny or resist. For politics is the process of public decision, and it emerges when the changing tempos and tensions of a society upset and re-direct the balance of interest and power: a new equilibrium of social forces must be found. Industrial technology is a set of vastly disequilibrating forces and the political process becomes the technic of social compromise and social decision. In consequence, the sharp demarcation between the economic and the political is a fiction of the myth-minded. As a matter of fact, it is altogether likely that the failure to establish a working relationship between these two facts of our existence underlies what most of us rather casually call the social problems of our times.

But the political process is not a patent of the State. Every human situation in which the settlement of social issues and the provision and control of social functions become necessary is a political situation. The family, the church, the school, the club are units of political action, in much the same sense and certainly for some of the same reasons that the State is. The difference between these associations on the one hand,

and the State on the other, seems to be this. Whenever social ends and means transcend the sphere of action of any single group and become "affected with public interest," as the phrase has it, the processes of political action which are the specialty of the State are initiated. Increasingly the problems of means and meanings in modern living become "public," so that the growth of the State has paralleled the development of industrialism. Business collectivism, for example, has had its counterpart in "public" collectivism. It is no historical accident that both liberal and totalitarian countries in the last generation have experienced a rapid assumption of social and economic functions by the State: the evolution of industrialism itself is the most natural explanation.

However, these same evolutionary processes also explain the mounting tension and feeling which surround the expanding power of the State in our day. Recourse to the State as the arbiter of conflict and the channel of action spells the surrender of personal and group autonomy, or at least of a good share of it. In the name of public interest, demands can be made and sacrifices exacted which less dynamic societies might not experience. A contracting industrialism, it seems, requires an expanding State.

Yet the loss of autonomy is hardly the complete story behind the resentments, misgivings, and conflicts over the enlargement of State power. Perhaps even more important is the fact that as the State itself becomes an enterpriser in an industrial sense, the struggle to control its policies and activities becomes intense and acrimonious. There spring up ideologies which rationalize motives, attract support, state issues, and press for well selected though not always publicly avowed objectives. The lines of struggle are fluid, the forces sometimes latent, the partners changing (as manifest issues change), the slogans and sentiments artfully chosen and care-

fully phrased. The strategy is war-like, the tactics brutal; for the stakes are high: the life or death of systems of property, codes of behavior, patterns of expectations, particular group controls. The ideologies may have no relationship whatever to the underlying objectives, and the organizations which direct maneuvers may be composed of a heterogeneous membership brought together by miscellaneous but big promises of spoils of war. Nevertheless, a whole society can be embroiled in conflict, and even revolutionary re-direction of that society can be achieved: for proof one needs to cite the record of Europe in the last two decades.

A maturing industrialism, then, is a besieged city, and the processes of its decision-making and decision-enforcement are ineradicably colored by ideological pre-commitments and entrenched group interests. This clash of forces is a normal phase of politics in an expanding industrialism, as any industrial history of the United States shows, and it is likely to be constructive and wholesome, as a long record of social legislation indicates. But it loses its character as mere politics in a contracting or maturing industrial economy: it becomes revolutionary, violent. The reason is simple: continuous compromise cuts away the margins of concessions; sooner or later it becomes clear to a given "interest" that further concessions will only extend the power of its opponent and menace its own position in the social equilibrium. And so the word goes down to hold the line.

A new kind of civil war, of which the Spanish Civil War during the Thirties was a still somewhat old-fashioned herald, has been in the making and has been climaxed perhaps by the recent World War. It is possible that this war has resolved some of the contradictions and confusions, conflicts and resistances which obstruct the normal processes of politics in our technological world. However that may be, one thing

is clear. There is no reason to believe that the kind of tensions and unsettlement which industrialism seems now to induce can ever again be handled by the neutralization of government. Nor can they be handled by the spirit of political planlessness and postponement which characterized the problem-solving of classic industrialism. The society of massed mechanization in these days of its maturity has reached a new age, a plan age, and its leadership has problems which the leadership of classic industrialism neither recognized nor was prepared to solve.

II

Liberalism: Culture Focus of Industrialism

GONE ARE THE DAYS when the "time for decision" is an occasion of individual human action. The forces of industrial society are collective, institutional forces working within giant frames of thought and action: "business," "industry," "labor," "agriculture," "markets," "nation," "class," "ideologies," and so on. If this point of view be true, then the future of industrialism, partly because it is tied to these mass patterns of life, is likely to be more emotional, less rational, less a matter of cold, calculating determination than the industrialism of the past. For this reason the thoughtful person is disturbed by the growing power of "propaganda," "class ideology," "nationalism," "militarism," and other mass communication patterns. The center of gravity of these symbolic substitutes for intelligence is not the self-interested and thoughtful human being but the impassioned, aroused society swayed by mass strategies on the scale of world-wide competitions and conflicts.

To be sure, there is in this prospect little aid and comfort to the apologists of a planned future. One thing can be said with some certainty: if the record of the last twenty-five years makes possible any generalization at all, it is that the

affairs of the society of massed mechanization have become subject to the hegemony of "politics." The twentieth century human being tends to be not an economic but a political man!

Early liberalism tried to give politics, in the sense of a State-dominated process of decision-making, a final interment. Liberals then had no place for politics. Their society, so they thought, was a "natural" order of "naturally" harmonious human beings whose common self-interested enlightenment could be relied upon to fashion a just social organization. Whether that philosophy of politics was ever valid, historically or logically, is beside the point: industrial people at this stage of industrialization gave it reality. It became the center of their way of life: their "culture focus," the arbiter of their political destinies, the mirror of their social expectations, the frame of their economic reference. This faith, as the *leitmotif* of industrialism, becomes the sanction for their neutralized State, their urbanized community, their centralized business, their impersonalized contacts, and their rationalized poverty.

Of course, this faith was not an easy one, nor a happy one, despite the vigor of its optimism. Christian socialists fought it for the decadence of its "economism," and the anarchists assailed it for its massiveness. The nationalists condemned it for its atomism, and the religionists for its rationalism. The poor (at least some of them) hated it for its acceptance of economic inequalities, and the rich (again, some of them) for its populism. The Leftists attacked it for its middle-class rule, the Fascists for its anti-State phobias, the Nazis for its humanitarianism. As might have been expected, these challenges to the liberal pattern of industrial life, cumulative and repetitive, have grown in power, and liberalism has conceded to them a little here and a little there. Today the fate of

liberalism as the culture focus of industrialism is less certain than at any time in its chequered career.

Yet no thoughtful student of modern man can contemplate the débâcle of liberalism with composure. For this focus of the industrial culture has at the center of its field the noblest of all human values, the free man: the free producer, the free thinker, the free citizen, the free religionist: the free human being and the free human group. For the first time in human history a whole culture structure has under the aegis of liberalism been built up around the conviction and the custom of human integrity: the dignity and worth of the human personality through whose free exercise of rights and powers both the stability and the expansion of a balanced culture take place. Such a conception of civilized human behavior, however imperfectly realized, a technological age dare not lose.

The structure of industrial culture was raised by men who had won for themselves the rights and powers of a free society. Their language at first was one of "liberty," because their need was the removal of restraints upon action. Later, their speech became positive, filled with the words of "freedom," because their need had changed to one oriented around the mobilization of resources for action. "Liberty" and "freedom": the absence of restriction and the capacity to act: the rights and powers of free men: such was the stuff of the technological expansion which produced industrialism. It was not a thin, watery stuff: it was a revolutionary faith, and it burned high in revolts against the Church, in revolutions against the State, in protest movements even against its own society. From it came a free market, a free labor, a free enterprise, a free conscience, a free science. Liberalism was a revolutionary creed because it had to be. But it was never simply one great revolution, won once and for all time.

Wherever modern culture penetrated, the liberal revolutions in the Church, the market-place, and the State had to follow. There is no pristine pattern, no primitive liberalism. The liberal man is a creature not of letter but of spirit: he is born wherever and whenever a man or group can say, "On this road there is a blockage which needs removing," or "here there ought to be a road." For the free man, or the free society, is concerned with the power to act, the power to act in such a way that the deepest demands and the highest insights of his being can be known and fulfilled.

III

The Stratigraphy of Liberalism

LIBERALISM, THEN, is a geological formation: there are strata of human freedom. Each stratum is an historical fact, a phase in the evolution of human experience; nor is there a final layer of freedom to which free men can turn with pride and complacency: the "top" layer is only the most recent rupture of "the cake of custom." For liberalism is a continuing revolution, the original one, happening long before Lenin's and Trotsky's. Obviously, then, an understanding and use of liberalism call for a kind of stratigraphy, a knowledge of the record; not of rocks but of revolutions.

Stratum One is the phase of "the free mind." An old formation, filled with ancients bearing Egyptian, Greek, Roman names, it approached its climax in an historic renaissance of the human spirit, in religious revolts, in free-spirited political inquiries, in laboratory experimentation, in a free press, a free assembly, a free speech, a free religion. This stratum still comes to the surface of contemporaneity in "old" countries and "new." Its vocabulary is one of "natural rights," through which the free man is again and again declared an original datum, with authority historically and logically prior to the State or Church or Business or Industry.

Stratum Two is the phase of "the free market." Eighteenth century in origin but twentieth century by extension, it is a complex, almost contradictory formation still undergoing change. It started with the transformation of the "natural law" of human beings into a "natural law" of human production: equilibrating exchanges of goods, harmonious and just in the long run because a creation of harmonious and just human beings: a natural order of reasonable prices as the work of the natural order of reasonable men. It is a liberal conception so long as the main conditions were strictly kept: a society in which all men as producers and consumers had the power to act in such a way as to realize their own reasoned actions without injury or blockage to such capacity in any other men.

The Third Stratum has its beginnings in the conflicts of the Second. Nineteenth century at the start but twentieth century by inheritance, this formation is the phase of "the free society." It is part of the deeply felt necessity of such collective action as would enforce the principles of the free market and the free mind: the provision of real and unrestricted opportunity for all men to produce and buy, to live and let live, to say and listen without prejudice or injury to any man. This social freedom, sought in many different ways by anarchists and communists, by socialists and capitalists, has yet to evolve a common speech, though all are dedicated to that measure of the free society—the common good. It is a stratum in process, yet its direction is clear: the discovery of ways and means of liberating modern industrial man and society through the technics and techniques of social organization. Sometimes called humanism, optimism, humanitarianism, social politics, social planning, it is the revolution of our times. Its turning point is the human power to act, its essence is the mobilization of social resources to be

put at the disposal of such power, and its obstacles are all those vested claimants who have laid through law and custom a death hold on those self-same resources. Thus far, the enemies of this third liberal revolution have established an unenviable record of successes through violence: the violence of fascist and communist centralized might, the violence of economic monopolists within the liberal fold, the violence of mass society wielded as a bludgeon against self-realizing human beings of all groups and classes. But liberalism is not unaccustomed to violence; it has come through other revolutions—and counter-revolutions—and the end is not in sight.

This most recent stratum is not yet finished; its historic task is incomplete. For neither economic nor political monopolists, by whatever name known, have been able to show that the strategies of mass organization can freely release the powers of all men. So long as Nazis can kill Jews, and Communists can destroy "nationalists," and economic monopolists can eliminate opposition, the liberation of human society through positive collective action has not yet been achieved. Perhaps it will never be achieved. For in the free society all men have the power to act; that is the genius, the troubled genius, and the eternal heritage of liberalism. Yet if there is leadership remaining anywhere in industrial culture, it lies within this focus of idea and ideal.

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Modern Trends in Typography*

By WALLACE KIBBEE¹

TO UNDERSTAND present day trends in typography, one must consider the beginnings of printing from movable type and the historic background of letter forms used in printing.

Books printed prior to 1500 were called incunabula, or cradle books. These early volumes were indeed the cradles of the books of today. The first type designers were required, by the very meagerness of their means, to make the best possible use of the tools and devices at their disposal. A single artisan often combined the several skills of designing, matrix cutting, type moulding, ink mixing, paper making, composition and presswork. The results achieved were of such quality that only comparatively recent printing has even approximated the beauty and legibility of the early books. The books of Gutenberg's era were well adapted to the reading habits of that time. The transition from hand writing to books printed from movable types was easy and natural. So closely did the type designers follow the models of the calligraphers that copies of the first psalter from Gutenberg's press were sold in Paris by Peter Schoeffer as hand-written books.

While printing presses had long been in use for reproducing images cut in wood and metal, it was the invention of movable type about 1456 that made possible the expansion of bookmaking to the amazing proportions that it has now reached. The symmetrical arrangement of the title page of early books reflected the neat, categorical order of the eco-

*An essay presented to Francis Neilson, Litt.D., on the occasion of his eightieth birthday.

¹The writer gratefully acknowledges the assistance of Mr. Henry Wachs, artist and typographic designer of San Francisco, in the preparation of the material for this article.

nomie and political structures of the feudal era. For centuries little consideration was given to the dynamic possibilities of white space and its functional use.

Coeval with the industrial revolution that followed the gradual replacement of handicraft with machine production, there was wide experimentation with type design and the arrangement of type on the page. In the attempt to break from tradition, hundreds of new type designs found their way to the type-founders catalogs, with some weird and impractical results. Only a few of this multitude of designs have survived the test of time.

The growth of advertising has made great demands upon the ingenuity and versatility of craftsmen in the graphic arts. Photoengraving and other illustration techniques have kept pace with the improvement in machinery and reproduction processes. The growing use of offset photolithography and the combining of commercial art with typography in the making of zinc line cuts for letter presses, have greatly increased the scope and variety of typographic arrangements. By these methods, type may be photographed in any desired shape and at any angle.

The stiff and formal arrangement of type in symmetrical balance does not meet the requirements of competitive selling by visual means. Newer techniques of color and form are supplanting the formal, ordered methods of a slower-paced, more leisurely time. The white space of the page, heretofore considered as a mere frame for type and illustration groups, is now employed as an active element in composition. A new type of balance is sought, based upon asymmetrical, informal arrangements.

The sans serif types are admirably suited to modern ideas and methods. The wide range of weight, from light to ultra bold, with oblique variations, meets the demands of the time for printing based upon function rather than tradition.

Four principal basic type designs are now in general use. The serif, or cross stroke at the top and bottom of the letter, is the distinguishing mark of the three traditional type designs. The most widely used contemporary design is entirely devoid of serifs.

These four main classes of type are as follows:

1. **OLD STYLE**, derived from Roman letters cut in stone. The serif of the old style letters was originally formed by the chisel—a line straight across, rounded by the chisel stroke connecting the serif line with the body of the letter.
2. **MODERN**, with a thin straight line for serif—a development of lettering made with an engravers tool in copper and steel.
3. **SQUARE SERIF**, the characteristic of which is the straight thick line used in making the serif—a more recent adaptation of old style and modern letters.
4. **SANS SERIF**—formed with lines of approximately even thickness and having no serifs.

Several other type designs, not so widely used as the four enumerated, are shown in the accompanying illustration.

Some of the old style letters now in general use are Garamond, Cloister, Baskerville, Caslon, Weiss, Centaur and Kennerly. As old style is most generally used in newspapers and books, and the eye of the average reader is most familiar with it, it is considered the most legible of the traditional type faces. The slight irregularities in the forming of the individual letters and the variation in the height of the lower case lends to this type a certain grace that is pleasing to the eye, and aids in the formation of distinctive word patterns.

The so-called *modern* letters with their straight, thin serifs and rather formal regularity of shape, are probably less legible

than the *old style* forms. Bodoni, named for an early Italian printer, is the most popular of this class.

The square serif letters, because of the extreme regularity of the word patterns made by the broad, regular lines forming

OLD STYLE: Garamond *italic* SMALL CAPITAL

MODERN: Bodoni Bod. book **bold ultra**

SQUARE SERIF: Beton bold Stymie

SANS SERIF: Futura med. light **bold ultra**

BROAD PEN: Lydian 18 pt *italic bold cursive*

Text or Gothic: Wedding Text Cloister Black

CLASSIC: FORUM HADRIANO

HADRIANO STONE CUT

Script: Commercial Type Brush Gillies Legend

CARTOON BOLD BALLOON LIGHT

All type illustrated is 18 point, excepting Hadriano Stone Cut 24 and Legend 20

the serifs, are less legible in the mass than any of the other styles. They are most effective when used for display and in combination with sans serif and modern faces. Among types of this class are Stymie, Beton, and Karnac.

Sans serif is probably more widely used in advertising than any other style of type, and its use is gradually extending to pamphlet and book printing. Because of its simplicity, the

even weight of its lines, and its nicely balanced proportions, sans serif forms pleasing and easily distinguished word patterns—a most important element in legibility and easy reading. A prevalent notion that sans serif is not as readable as old style is based upon its comparative newness and not upon any innate structural defect.

The most widely used of the sans serif letters is Futura or its imitations. Futura is the creation of Paul Renner, a contemporary German designer. American type founders and matrix makers now supply replicas of the original under the names of Twentieth Century, Spartan, Vogue, etc.

Introducing Futura to America, Paul Renner said:

... A renaissance of the medieval manuscript letter does not symbolically express the spirit of our time nor can modern handwriting serve as an inspiration for a contemporary type. Printing can attain its own individual beauty, with which handwriting can never compete, only when it ceases seeing its prototype in handwriting. The letter of our time must finally accept the consequences resulting from the invention of type cutting and casting. We must ultimately familiarize ourselves with the idea that printing from type has nothing whatever to do with handwriting. It is an impression from metal letters: symbols that form themselves into word images. The reading eye does not follow the continuity of a type design but grasps, bird's-eye-like, groups of word images mirrored on the paper. Printing type can afford therefore, without loss of legibility, to repudiate dynamic tendencies—reminiscences of the writing hand—and assume more abstract, static forms, adequate to its nature.

The most significant tendency in modern typography is a trend toward the functional employment of type, rather than its use based upon tradition. The asymmetrical arrangement of lines and groups of type in relation to the white space available to the typographer, offers an opportunity to achieve dynamic and interesting effects.

While the advertising profession has made the widest use of the new methods and concepts in the graphic arts, book printers have for the most part followed the old traditional ways.

There is noticeable in some recent books, however, an acceptance of some of the principles of visual communication already acknowledged in the advertising field.

The trend in modern typography is definitely toward simplicity and legibility, employing forms that comply with the natural inclination of the human eye to seek harmony and ease.

San Francisco

A Geographic Survey of the French Economy, II

By DALLAS L. JONES

III

Agriculture

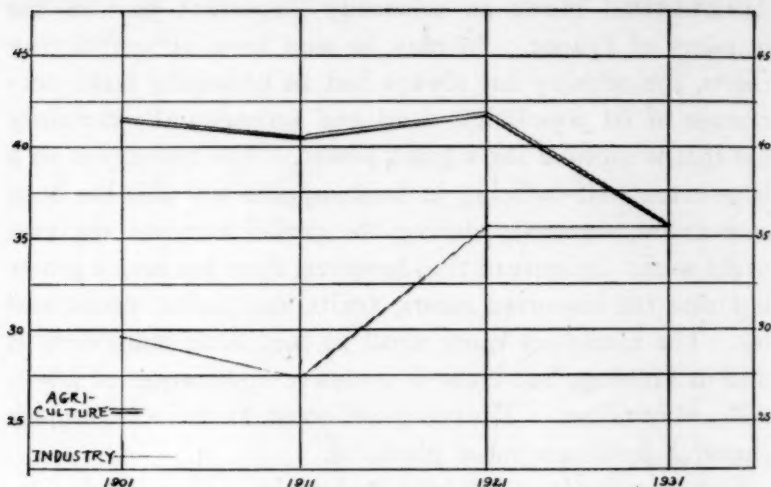
AGRICULTURE PLAYS an unusually important part in the economy of France. As may be seen from accompanying charts, the country has always had an unusually large percentage of its population rural and agricultural¹; certainly one that is unusual for a great power. The country is to a large extent self-sufficing in food supplies and this has been encouraged, especially during the period between the two world wars. In spite of this, however, there has been a growing taste for imported meats, fruits, margarine, cocoa and tea. The farms are quite small so that little machinery is used in farming, but there is intensive application of labor, skill and fertilizer. The reacquisition of Alsace in 1919 made chemical fertilizers more plentiful.

French agriculture has been undergoing a slow revolution. Improved transportation has increased the competition of imported wheat and likewise refrigerated transportation has made cattle raising for meat highly competitive. In meeting such problems, the French farmer has always proved astute. As one product decreases in demand, he has easily switched to another. In this he has had much help from his government. This has taken such forms as irrigation, schools and research. Railroads have improved their service to the farmer as he has needed it. An outstanding example of this may be found in the service of conveying the sheep of the

¹ It was estimated in the 1945 report of the Commercial Attaché to the U. S. State Department that 22 per cent of the total population were living on farms at that time.

Alpine-Jura region up and down the mountain during the process of trans-humance. The railroad service around centers of industry has been stepped-up so that perishable meats and vegetables may be rushed to the market.

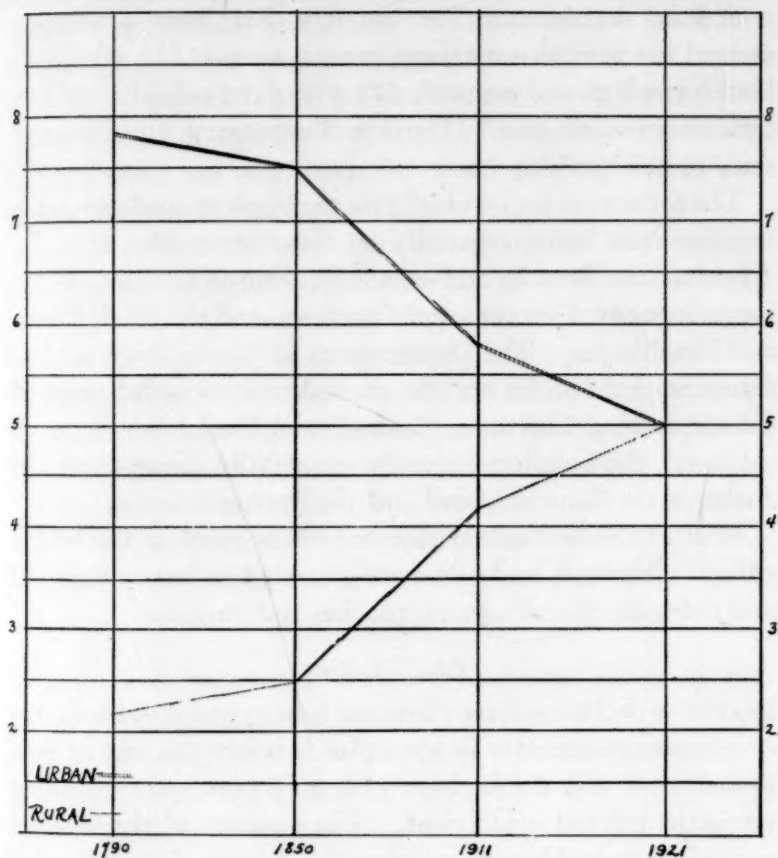
Latest changes in French agriculture have been in the direction of dairy farming. This has been brought about by a decrease in the return from former farm practices and has been encouraged by electrification, which has opened such indus-



Population Graph

tries as chocolate and condensed milk manufacture, especially in the Jura region. The decrease in wheat and cereal acreage has been partly due to an increase in yield per acre which accompanied an increase in fertilizers available from Alsace and French North Africa. Such decreases in acreage have been accompanied by a marked increase in cattle, both by weight and milk yield. Thus the country is working towards an intensive mixed farming of the enlightened type and not aimed at self-sufficiency. Such farming permits general abandonment of poorer crop lands to pasturage which are themselves improved by fertilization.

Cheese continues to be an important product and, strangely enough, is exported in large quantities while the mass-produced American and Australian cheeses are imported for domestic use. Agriculture as an industry tends to traditional



Population Graph

and typically French "specialties" which take advantage of the available cheap individual labor and high average intelligence among the rural population.

The gradual and steady movement of the rural population

into the cities and industry is shown in the accompanying charts.

FOREST AND ORCHARDS

ABOUT 25 MILLION ACRES of France are under forest which is chiefly deciduous. The country has been practically cleared for agriculture except in such areas as (1) where the land is too high and exposed, (2) where the soil is infertile or difficult to work, and (3) where the country is too rugged, steep or inaccessible.

The forests are found chiefly on the bleak upland surrounding the Paris Basin, especially on the steeper sides as in the Argonne and Barrois, and on the Plateau de Langres, all the steep slopes of Auvergne and Cevennes, and the High Vosges and Low Vosges. The Departments of Var in Provence and Garonne and Landes are the most densely wooded areas of France, having Chestnuts, Corkoak and Pine. A prosperous medieval shipbuilding industry practically cleared off the forest of the Central Massif and the Pyrenean slopes.

Most of the orchards are located in the south in the Rhone valley. Almonds and olives are exported in large quantities and there are cherries, pears, peaches and apricots.

PASTURAGE

PASTURES OF FRANCE are chiefly of four types: The mountain or summer pasture are in the uplands below the line of perpetual snow and the herbage is short, sweet and nourishing when the rainfall is sufficient. The pastures of the lowland occupy that portion where there is an even distribution of rainfall and the cattle are out of doors most of the year, where foliage is rank, these pastures are used for cattle only. The pastures of the salt marshes are used especially for sheep. Finally, there are the artificial pastures on which there is a growing tendency to combine cattle, sheep and pigs with crops.

LIVESTOCK

SHEEP-RAISING IS POPULAR around and to the north of Paris, Haute-Vienne, the southern Causses, especially Aveyron, the Bouches du Rhone and the lower Rhone basin and in the eastern and western Pyrenees. Trans-humance is widely and intensely practiced. In some areas a herd may change pastures and tenant herders five or six times in twelve months. However, the tendency is towards rearing and fattening sheep on agricultural land. Breeds are improving. Though there are still sheep for wool, they are being used more and more for meat.

Cattle are found everywhere except in the Rhone valley and the semi-arid Mediterranean areas. Cattle are especially preferred to sheep where there is more rainfall. In the better sections the tendency is away from a few cattle for all jobs to specializing with better breeds. The chief districts of cattle are the Armorican Massif, Central Massif, Saone Basin, Pyrenees and North District of Picardy, Artois and Flanders. The finest cattle are in the plains where there is steady rainfall. This is the country that grows cereals when prices warrant it and switches to fine bred cattle when profitable.

CROPS

WHEAT IS AN ESSENTIAL CROP to the French economy and, unlike the practice in the countries farther to the north and east, white bread is eaten by all classes. Even in the districts of poorer soil rye and buckwheat are given way. Fortunately the soil and climate on the whole are highly suitable to wheat. There is practically no country in the world where soils have been so changed by human effort and the weather is relatively sunny for Western Europe. In consonance with the wide variety of growing conditions, there is a wide variety of wheat. The best areas are in the plains about and particularly to the north of Paris and the plains of Picardy and

Artois, the champagnes of Beauce, Bice and Berry. Where the soil is less desirable there is mixed farming; here rearing of cattle and growing of forage crops are predominant with cereals also important. Where the soil is very poor, an abundance of fertilizer is used, mostly for wheat growing.

Other cereals are oats, which are mostly north of the latitude of Lyons and chiefly used as fodder crop; rye, in the poorer lands of the northern Central Massif and extending further south than wheat or oats; barley, which is not extensively grown and is used in breweries; and miscellaneous fodder crops of maize, clover and vetches, which are increasing in importance. There is widespread cultivation of potatoes and in addition to human consumption they are used for feed and alcohol. Cultivation of sugar beets is increasing, and, being an excellent rotation crop with wheat, the spread is in the wheat-raising areas.

Irrigation, invention and provision of rapid transportation facilities have made possible a large scale modern development

PRODUCTION

1928

Agriculture (in millions of metric tons)

Wheat	7.65
Oats	4.94
Potatoes	11.26
Wine (in mil hectol)	60.30
Sugar Beet	5.00
Rye87
Barley	1.11
Buckwheat31

Industry (in millions of metric tons)

Coal, etc.	52.3
Coke	8.0
Iron Ore	49.2
Pig Iron	10.0
Steel (raw)	9.5

Live Stock (in millions)

Horses	2.9
Cattle	15.0
Sheep	10.4
Pigs	6.0

of cultivation of fruit, flowers and vegetables for central markets and for export. For this purpose the sheltered region of the maritime climate such as the bays of Brittany and especially the Mediterranean region are well adapted for early crops and long seasons. Food plains of the Somme around Amiens and Nates and certain other rivers are old market gardening centers and have outgrown their own markets, reaching into the less fortunate agricultural areas at home and export markets abroad in Great Britain, Spain and North Africa. All kinds of mechanical devices are used, including glass houses. The location of marketing areas near industrial centers is noted here as elsewhere.

In the Maritime Alps, there is a perfume industry, depending on specialized cultivation of a large variety of flowers and scented shrubs. The industry employs some three thousand persons and in addition to its own flower cultivation imports flower extractions. Flowers, themselves, are exported to London, Paris and Germany and call for fast, efficient transportation.

The vineyards of France make it the most important wine-making country of the world. In the northwest, where there is too much humidity and too little sunshine for vines, apples for cider are cultivated and beer is made in Flanders. In the basins of Paris and the Aquitaine climatic conditions are such that, wherever limestone slopes are found, vines are abundant. Let us consider some of the characteristics of the vine. Strong and continuous sunshine during the late summer and early autumn and a moderate rainfall are essential, but it can withstand considerable frost and drought. Its cultivation has been so productive that farmers are tempted to subordinate all other farming to it and thus fall into the hazards of a one crop economy. The best vineyard areas are found in the Plain of Roussillon and Languedoc where there is large

scale production of "vin ordinaire"; in Provence, where agriculture is more varied and the vine has to compete with olives and fruit; the Aquitaine basin, where cultivation is exceedingly large scale with Cognac, Medoc and Sauterne and including Bordeaux, the greatest wine exporting port in France; the area of the Loire valley and Rhone-Saone plains, where there is smaller quantity, but higher value in the sparkling white wines; and Champagne, which is the northern limit and produces the famous sparkling and high value wine of the same name. The wine industry of France has been blessed with south and eastward facing limestone slopes and an abundance of locally highly skilled labor.

IV

Industry

THOUGH STILL NOT PRE-EMINENTLY a manufacturing country, with the addition of Lorraine France becomes a great industrial nation. The greatest weakness of her industrialization is the lack of a good coking coal. Because of the vital characteristic of the weakness, inauguration of such costly schemes for the regulation of the Rhone and for the Grand Canal d'Alsace to get hydro-electric power occupied much thought in French government. The importance of coal may be seen here, as elsewhere, by the fact that the greatest industrial area is found in the northern coal field, which is the biggest in France and extends into Belgium, Holland and Germany. This region is ideally situated, having in addition to the coal field the narrowing of the great European plain at this point. This brings about a convergence of international routes. The proximity of Paris and the channel ports increases the importance of the district. Textiles dominate this sector because they antedate all other industries and the paucity of good coking coal.

Farther to the east is the next region of industrial importance. The industry here is based on the great Lorraine iron field. Textiles are second and owe their importance to water power of the Vosges and skilled labor. In 1931 France ranked first among the European states in the production of pig iron, and second in the production of steel. These activities are largely based on the iron mines of Lorraine.

The Lyons region of industry is typical of France in its structure, radiating from Lyons into the whole middle and lower Rhone basin and lapping into the basin of the Loire. The region has great diversity due largely to the scattered nature of the sources of power. There are small coal fields at Givors-St. Etienne, Creusat-Blanzay and Grand Cambe and the labor supply is drawn mostly from the agriculture poverty area. Similar scattered industries are found in Savoy and the Jura, drawing power from the water power of the Alps. Textiles, chemicals and metallurgicals center at Lyons while the silk of the lower part of the region reaches Marseilles.

Another region of industrial radiation is found around Paris. Here the dominant factor is the convergence of transportation routes plus the natural and artificial water routes accompanied by highly skilled labor. Industry of the Paris section is also highly diversified with textiles, chemical works, light engineering, automobile manufacturing and manufacturing of "*articles de luxe*." Le Havre is the port of the region and the entire Seine basin is well industrialized.

Shipbuilding and metallurgical industries are found in the lower Loire region around Nantes and the modern port of St. Nazaire and are based on imported coal.

In the French uplands, scattered industries based on local traditional skill and cheap labor have flourished colorfully with direct encouragement of government and the develop-

ment of hydro-electric power. Cottage industries aided by electricity in the homes are not replacing factory industries, but are extending them. Wood-carving, watch and jewelry making, toys, textiles and lace are important and serve to prevent the wholesale desertion from the country for the cities.

NATURAL RESOURCES

FRANCE WITH LORRAINE contains 46 per cent of the usable iron ore of the continent of Europe, produces approximately one-half of the iron ore mined in Europe and leads all nations of the world in the export of this product. The "Minette" ores of Lorraine are not of high quality and were not usable for steel until the development of the Thomas process in 1880. Its self-fluxing quality eliminates the necessity of adding limestone. The tremendous amounts in which it is found make it easy to mine. These characteristics more than compensate for the low quality of the ore. It is unprofitable to ship the ore long distances, however, and the importation of coal and the smelting of the ore near the mines is encouraged. There are other reserves of iron, chiefly in Normandy, Brittany and the eastern section of the Pyrenees.

Although France contains numerous coal deposits, it is unable to produce a sufficient amount to meet its own demands. In spite of the fact that it ranks third among the European producing nations, France has to import nearly half as much as it produces and is the leading coal importer of the continent. The coal fields of northern France produce some two-thirds of the total output of the country. This coal is of fair quality, but the thin seams and its depth make mining cost high. Other large coal deposits are found near the edge of the central plateau in the neighborhood of St. Etienne and Le Creusot and smaller deposits are widely scattered throughout the country.

France contains approximately 60 per cent of the bauxite reserves of Europe and is responsible for some 55 per cent of the continent's production. It is the greatest producer not only in Europe, but in the world. Bauxite is found on both the east and west sides of the Rhone, but the plains of Provence have the greatest reserves and constitute the greatest producing center. In addition to producing what is used at

SOURCES OF FRENCH IMPORTS

Country	Percentage of Total Imports		
	1913	1926-1930	1931
United States	10.7	12.3	9.0
Germany	12.7	10.4	14.5
United Kingdom	13.2	10.4	8.8
Belgium	6.6	7.6	8.6
Algeria	3.9	5.2	8.1
Argentina	4.4	3.9	3.4
All others	48.5	50.2	47.6

Destination of Exports

	Percentage of Total Exports		
	1913	1926-1930	1931
United Kingdom	20.9	16.4	16.6
Belgium	16.1	14.8	11.8
Germany	12.6	9.9	9.0
Algeria	8.0	7.8	13.1
Switzerland	5.9	6.5	7.6
United States	6.7	6.0	5.1
All others	30.4	38.6	36.8

(Data: U. S. Department of Commerce.)

FRENCH EXPORTS—1935

(in millions of francs)

Iron and steel	747
Wool and wool waste	664
Ores of all kinds	443
Silk fabrics	437
Chemicals	343
Raw hides, skins, and furs	340
Cereals, including flour	332
Wine	321
Automobiles and parts	288
Tools and metal manufactures	268
Machinery	255
Wool yarn	220
Spirits	216
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Total to foreign countries	4,874
Total to colonies	10,583
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	4,890
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	15,473

(Data: U. S. Department of Commerce.)

FRENCH IMPORTS—1935

(in millions of francs)

Coal and briquettes	1,900
Mineral oils	1,309
Wool and wool waste	1,192
Cotton	1,029
Oil bearing seeds and fruits	629
Machinery	608
Fruit, fresh, dried, and preserved	542
Coffee	493
Copper	338
Tools and manufactures of metal	313
Raw hides and skins	311
Lumber	283
Wood pulp	275
Silk	225
Cereals, including flour	204
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Total from foreign countries	9,651
Total from colonies	15,562
<hr/>	
	20,945

home, France exports large amounts of bauxite to other European countries.

Near Mulhouse in Alsace are the second largest deposits of potash in Europe or in the world. Normally nearly one-third of the potash produced is exported and domestically it has proved an excellent mixture for fertilizer.

France ranks fourth among the European states in potential water power, being surpassed only by Russia and the Scandinavian countries. Over one-half is found in the Alps and the remainder is divided among the Vosges, the Jura, the Pyrenees and the Central Massif. It is well located to meet the needs of the country, for all these regions are deficient in coal. Recently, France has been carrying out a program for complete electrification in order to raise the general living standards and to supply local industry.

FOREIGN COMMERCE

FRANCE IS WELL SITUATED for international trade both by land and by sea. In spite of this advantage, trade is less well developed than in many neighboring countries. This is due

in part to a scarcity of good harbors and the comparatively late development of manufacturing, but in the main because of the tendency of the country to consider herself less dependent upon outside areas because of her unusually well-balanced economic set-up. This was especially apparent during the period between the two great world wars. During this period France turned her back upon the excellent trade possibilities presented to it by nature and became a leader in the drive for increased trade barriers and attempts at self-sufficiency.

The greatest material weakness in these ideals of self-sufficiency is coal. The large iron deposits of Lorraine make it imperative that coal be consistently a major import into the French economy. Unfortunately, politics has played an important part here and left France in a decidedly weak position. It would seem obvious that nature intended a marriage between the iron of Lorraine and the coal of German Westphalia, yet politics has not acted to carry out this natural solution for France. The great rivalry between the two countries, spurred on by suspicion, has led each country to act independently. Unfortunately for France, Germany has been more successful in securing Swedish iron than France has been in securing coal of good coking qualities. Until France has worked out a solution to this problem she must remain a rich country in potentiality rather than actuality. The steps she chose to take in the Thirties certainly proved not to be in the right direction.

The foreign trade that France has exhibited has recently taken on the characteristics of those of an industrialized nation. Industrial raw materials and foods make up a large percentage of all imports, while manufacturing goods form the largest percentage of all exports. Coal, mineral oils, raw wool and raw cotton are leading import items; and iron and

steel, woolen textiles, and silk fabrics are important exports. Recently there has been a rather large import balance which is normally counterbalanced by tourist expenditures and the return from foreign investment.

But when one looks at the position of France regarding trade possibilities, it is impressive that here it is lagging behind a tremendous possibility. As it moves from the dominance of agriculture to industry, it must at some stage along the way discover the need for taking advantage of this geographic condition.

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· C O M M E N T ·

On Problems of Corporate Finance

GEORGE A. BRIGGS'S ARTICLE, "What Is Crippling Free Enterprise,"¹ is a good one but does he not oversimplify some of our problems? I can hardly agree with him in the statement that "surplus earnings should be distributed in dividends." Why are we to assume that all earnings must be distributed instead of being ploughed back in part? It seems to me that it is up to the directors to administer these affairs and make their decisions according to the best interests of the company. I am familiar with one corporation which for years had paid a 6 per cent cash dividend, ploughing back further earnings and declaring stock dividends to cover the increased assets of the company. Such a course is far wiser and generally far more profitable to stockholders than to receive the earnings all in cash and then reinvest them. For, under many circumstances, such stock dividends are not subject to income tax whereas if the earnings were all distributed in cash, and then those who wished to reinvest in the company bought new stock, a large part of these excess earnings would be swallowed up by the tax collector. As it is, those who wish to sell and do not wish to increase their holdings, can sell the stock received in dividends and those content to hold the new stock are not bled by the tax collector.

Mr. Briggs also states that one corporation should not be permitted to own stock in another corporation. Generally, perhaps, this is true but it is not as simple as it looks. How about banks and insurance companies? Should they never own stock? I have been studying some reports of the investments of some fiscal corporations and find that some of the most profitable and successful, and ones that are rendering a valuable social service, are large holders of common stocks. Then too there are cases where our laws almost require companies to operate subsidiary companies. Sometimes to disentangle realty holdings it is almost necessary to have separate corporations own real estate in different states or in localities with peculiar tax laws, and then there are cases like that of the Pullman Company where it was almost necessary to disentangle the building and sale of cars from their operation, in order to simplify and clarify problems of the regulation of fares, having bearing on only one part of the combined business. Another case comes to mind of a great corporation

¹ AM. JOUR. ECON. SOCIO., Vol. 6, No. 4 (July, 1947), pp. 505-14.

which incidentally must own and operate a hotel, and for many reasons it is wise to keep that part of the business entirely distinct and separate from non-related activities.

The question of interlocking directorates too is an involved one. In broad and general terms I think such set-ups should be avoided but, where a bank more or less has to take over the control of a business enterprise or when such an institution as a great insurance company owns a large interest in a business, should they not have representation on the board? I am concerned now with a question of an institution which is shortly to come into ownership of a large block of stock in a certain corporation, by inheritance. The holding is very substantial. May not the institution seek a place on the board for a representative of theirs?

I am sure Mr. Briggs and I see these questions in much the same light but I think we must be careful not to oversimplify some of these complex questions.

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Neighborhoods in the Democratic Process

ONE OF THE GREATEST PROBLEMS confronting the American people is that of creating good neighborhoods. Neighborhoods are the areas in which groups of families spend most of their lives. They consist primarily of homes and those facilities which most directly serve them—stores and barber shops and beauty parlors for daily services, churches and schools and libraries for cultural life, parks and playgrounds and theatres for recreation. Transportation facilities must be adequate for movement and convenience with safety. Good neighborhoods are pools of relative calm, affording their members a quiet sense of security and inter-dependence which fosters toleration, dignity and strength.

We have had such neighborhoods. The New England village was one type. The little mountain town in the Appalachians from Canada to the Gulf was another. The older small towns of the mid-West were still another. Some exist even today, relatively undisturbed by super-highways and ugly industrial establishments. But far too much the American people have transferred their allegiance to newer, flashier standards—to large urban conglomerations, to plushy theatres, to tall buildings—until even the small towns build false store fronts to create the illusion of height. We crowd the land until human life becomes a scramble on its own dung-heap and even such a liberating technological masterpiece as the motor car becomes an additional problem instead of an instrument of solution. We live so much on top of one another that decent human relationships are virtually impossible.

Democracy needs for its proper practice a certain basic pattern of life, supplying space and time for adequate mastication of new inventions of mind and matter before they are taken into the system. That kind of pattern presupposes a relative permanence of interest in the neighborhood by those who live in it, quite apart from property or even home ownership. It presupposes a natural but functional arrangement of community living space and community services. When such a pattern exists, with the welfare of each linked closely to that of all, revolutionary alien ideologies are distinctly unappetizing. But then, too, specific particular proposals for progressive improvement are welcomed, subjected to examination in all good will, and eventually adopted as modified by common consent. The speculator and the adventurer who places his own interest before that of the neighborhood would not be pleased with such a community, for they are

the true revolutionists in contemporary society lacking only the merciless rationale of revolutionary ideologies. True democracy must be practiced in the neighborhood before it can be successful in the nation and in the world. For democracy is that process by which the individual will, modified by the will of each member, becomes the common will.

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The Agrarian Question in Korea

IN KOREA, as in other occupation areas, we have recognized the existence of an agrarian land question of momentous proportions but the American occupation authorities have done nothing fundamental about it. There, as elsewhere, we take the position that this is a domestic problem which must be solved by the nationals concerned. From a political viewpoint this may be laudable; from an economic viewpoint, it is unrealistic. At the very least we should have undertaken re-education in economic democracy.

The land tenure problem in South Korean agriculture is discussed by George M. McCune of the Department of History of the University of California in "The Occupation of Korea" (*Foreign Policy Reports*, Oct. 15, 1947, p. 191). Mr. McCune served, during the war, in the Office of Strategic Services and at the Korea desk in the State Department. He says:

Landlordism has been encouraged by the Japanese, partly as a means of grain collection. Tenancy had greatly increased, so that about 75 per cent of the rice lands of South Korea were tenant-operated. (Under Japanese control over 50 per cent of the crops were collected as rent.) By one Military Government ordinance (Oct. 5, 1945), rental rates were limited to one-third of the natural crops and by another (Dec. 6, 1945) titles to all Japanese-owned property (which comprised 12.5 per cent of the total cultivated area) were vested in Military Government. Although various proposals had been made for a land-distribution program, no action was taken in the first two years of occupation. "It is the contention of Military Government, at present," stated a government report of April, 1947, "that it is a Korean problem of far-reaching consequences and should be formulated by the Korean Government. Assembly action should do much to alleviate the oppressive tenancy conditions and to stabilize Korea's agricultural economy." (The Interim Legislative Assembly discussed the agrarian reform problem at great length but did not reach any decision.) Whatever the cause, "oppressive tenancy conditions" prevail under Military Government, and are not being effectively alleviated by appropriate reform measures.

Mr. McCune makes it clear that we have lost a remarkable opportunity, for in North Korea, after distributing 2,450,000 acres of land to 725,000 landless farmers and small holders, the Soviet authorities installed the Communist system of "taxes." They obliged the farmer to give up as much as half his crop, roughly equal to what he had paid under Japanese tenancy, to the State. A land tenure system based on justice and equality of opportunity would have been powerful propaganda for the democratic cause, as well as a sound basis for Korean reconstruction.

W.L.

The World Has Changed

In Grover Cleveland's term of office there was excited argument over the gold standard and the tariff. There was a movement advancing slowly but surely, for civil service reform. International affairs rested unquietly on the knife edge of the Balance of Power, but we, safe behind the Atlantic moat, had no concern with the Balance. Science, by methods we could all understand, was reducing one group of phenomena after another to formulas we could apply ourselves, and could perhaps turn to a profit. In the arts and literature our whole duty was to know and appreciate the best that had been done, and if the creative impulse burned in our breasts, our dearest wish was to emulate successfully the Masters who had gone before.

Today international affairs are the vital business of all of us. Are we moving slowly but surely toward One World, or are two worlds in the making? If two worlds, is war between them inevitable? Must we go through the agony of a third world war, more terrible than World War II, the most terrible in history? There is no statesman today who wants war. There is no nation, or group of nations, that could gain by war. Victor and vanquished alike would suffer horribly. Yet statesmen may be driven to the precipice of war by the force of public opinion. We are all makers of public opinion. It is our duty to see that our contribution is intelligent.

It is not only in international affairs that the world of today stands in sharp contrast with Grover Cleveland's world. Science and technology have issued from the small containers of the nineties like the Djinn of the Arabian Nights from its small-necked prison-jar. In the nineties science had to beg for its living. Now it demands billions. With infinite pains it enlisted a few recruits. Now it warns us that fewer and fewer careers are open to the routinier and the professional good fellow. Trained abilities are up in the market. "Personality" remains important, but personality splits no atoms.

Nor have the arts been able to rest at ease in Zion. The function of art, now as of old, is to interpret life, to discover its meanings and to make them intelligible. Not the life of bygone ages, but the life of the day. Old fashioned people may deplore the restlessness, the apparently wanton violence to traditional standards of the modern artists. The artist is fighting for the very life of art, its part in the contemporary movement of affairs.

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In Memoriam: John C. Rawe, 1900-1947

A SOCIOLOGIST whose scholarly studies were stimulated by the passionate conviction that science, philosophy and religion, in teamwork, could improve the lot of the average citizen and help society rid itself of the disorders that afflict it, the Rev. John C. Rawe, S.J., gave devoted leadership and faithful service to the movement for ethical democracy in America.

In his books, "Who Owns America," published in 1936, and "Rural Roads to Security," written in collaboration with the Rt. Rev. Msgr. L. G. Ligutti in 1939, Father Rawe put into permanent form his contributions to a social philosophy that one day will realize his ideals. In his teaching at St. Louis University, Creighton University and at the Wyoming Indian mission, and in the active part he played in the rural life movement as a member of the board of directors of the National Catholic Rural Life Conference, he worked quietly and practically to build the Christian and democratic society he envisioned.

I first met Father Rawe through the good offices of his collaborator, Msgr. Ligutti, who had been a formative influence on the young Jesuit scholar's thinking as on so many others, including my own. Father Rawe paid me the compliment of attending a course of lectures I gave before the second world war on "The Origins of the Capitalist Crisis." He was enthused about the project; stimulated by his encouragement and that of a few others, a midwestern sociologist and I undertook to work up the voluminous materials into a comprehensive treatise. The outbreak of the war and the founding of this JOURNAL, however, caused the postponement of the project before it was half completed.

When this JOURNAL was established in 1941, Father Rawe took as active a part in it as any of the other collaborators, although that part was never acknowledged in the masthead by his own modest wish. He helped to plan the investigations through which the philosophical aspects of our social and economic problems were explored, and he advised regularly on manuscripts and on other editorial problems until his health broke down. Even when he could no longer take part in the venture he aided it with his prayers and his encouragement.

Father Rawe was born in Carrollton, Ill., Dec. 4, 1900, the son of Henry Anthony and Lucy Cecilia Selhorst Rawe. He did his undergraduate and graduate work at Boston College and took his bachelor's and master's degree in law at St. Louis University. Entering the Society of Jesus, he

was ordained a priest in 1935. After teaching at St. Louis University in 1937 and 1938, he went to Creighton in Omaha to teach political economy. There he founded a school for rural leadership which combined the study of scientific agriculture with that of the disciplines for rebuilding rural society on the basis of a restored family life. The school was on outstanding success until the war robbed it of its student body. Coming to New York in 1941, he joined the staff of the Institute of Social Order, where he developed programs for aiding the family farmer. Called back to the midwest, he found his services sorely needed. An Indian mission in Wyoming had lost a large source of revenue and he was asked to go and build up the mission farm and train the young Indians in scientific agriculture. He went gladly and his work was beginning to show signs of success when he was stricken by the illness from which he never recovered. After he had passed the crisis, his physician ordered a change in climate. He accepted a call for his services from Ridge, Md., and went East to help train rural leaders, develop co-operative enterprises and aid in rural life institutes for clergy and religious. Although his health failed to improve, he gave of himself to the last until his final illness forced him to enter the hospital. He passed to his reward on Sept. 7, 1947. Burial took place at the novitiate of his order in Florissant, Mo. May he rest in peace. And may all of us who have been touched by his wisdom, his courage and his self-effacing devotion find in his example of practical dedication to the task of improving the condition of men living in society the inspiration to complete the work he helped to begin.

W.L.

• R E V I E W S •

The Search for Economic Principles

Economics. By John Ise. New York and London: Harper & Brothers, 1946, x + 731 pp., biblio., index, \$4.

Two trends are apparent in the writing of economics texts. The first is the gradual elimination of the old "principles"—better known to students as "those damned curves"—in favor of descriptive material or "problems." The second is the gradual integration of the descriptive or problem material itself: the old grab-bag of statistics and homiletics is being replaced by something like an over-all approach.

The two trends are of course related, for both reflect the experience of the last few decades, especially the depression and the war experience. During this time a great deal of knowledge has accumulated as to how the economic system functions. This knowledge has come to hand in forms which simply cannot be translated into the "curves" of price and value analysis—there is something definitely *non*-marginal about 1929-47 in the U.S., for instance, or the growth of Hitlerism—and thus space formerly allotted to price and value analysis is encroached upon by the new material. At the same time the growth of this new knowledge has inevitably resulted in its own synthesis and integration.

The chief instrument in this process of synthesis has been the concept of economic inequality or "deficiency of demand." This concept is the intellectual reflection of what the new economic text of Professor John Ise calls "the problem that perennially plagues capitalist nations—how to distribute enough purchasing power to enable the people who need goods to buy them, and so keep the productive machinery running at capacity" (p. 641).

As the key concept which has so far been turned up in the current search for (new) economic principles, the "distribution" or "purchasing power" doctrine has long done yeoman duty in the realm of reform, as the quotation from Professor Ise suggests. The new departure in the use of the doctrine concerns the explanation, however, not of "what should be" but of "what is." It is in that part of the text-book formerly devoted to principles rather than in the old "grab-bag" that the vantage-point of purchasing-power and demand, more especially the perennial deficiency of purchasing power and demand, is coming to be employed by

many, although not all, of the scriveners for the introductory economics course.

Thus for instance, the material of the introductory text formerly treated abstractly as "principles" of price formation is already passably subsumed under what used to be called the "problem of monopoly" and is now seen to be an aspect of deficiency of demand. It is recognized more or less generally, in other words, that business combination and consolidation—and therefore the typical phenomena of price rigidity—are business reactions to the threat of over-production constantly imposed by "deficiency of demand." As Professor Ise says, "in monopolistic competition . . . the demand curve slopes *moderately*, and as a result the producer has *some* incentive to restrict production; in monopoly . . . the demand . . . curve slopes *more steeply*, and therefore the monopolist has a *strong* incentive to restrict production" (p. 257).

Although expressed in "curve" terminology this statement of Professor Ise's shows the possibility and the tendency to employ the concept of deficiency of demand to explain economic phenomena which formerly could only be inveighed against.

In the process of explanation and description of the other varieties of price formation new principles are created which over-ride the former boundaries of theory. Professor Ise points out, for instance, that those prices not yet escaping the limited market by an industry "Office of Price Administration" contrive to do so through government subsidy and restriction of one kind or another. In the thirties "there was a surplus of farm products and prices were low. . . . The New Dealers decided that agriculture could never prosper as an almost purely competitive enterprise, so they proceeded to make a sort of government-controlled monopoly of it under the AAA, reducing production and raising prices just as businessmen did in urban industries" (p. 595).

To bring this government-sponsored restriction in agriculture into the same theoretical account with that of industrial restriction it is only necessary to elucidate the meaning of a "surplus of farm products." As Professor Ise points out, "surpluses" is only another way of saying "sloping demand curves" and of raising "the old problem of distributing enough purchasing power among consumers to keep industry operating" (pp. 689-90). Obviously an absolute surplus of either farm or industrial products has never existed. "Our experience during this war," he writes, "suggests that the surplus of some agricultural products which has plagued us in recent years would melt away if the masses of the people had incomes

large enough to enable them to buy what they really need" (p. 184). The same is true of "surplus" capital. "We have no surplus capital in the sense that we have more than is needed to produce the goods our people need" (p. 692).

In such ways and to such a degree has the old "purchasing power problem" approach, put in bold relief by the war, invaded one important set of "principles" in Professor Ise's text, those having to do with price formation. Another main office of the introductory text traditionally has been to instruct with regard to the distribution of income among the various "factors of production," and here too the encroachment of the purchasing power doctrine is considerable.

It is obvious in the first place that the theory of return to the factors of "land" and "capital" is taken care of in part by the theory of price formation in agriculture and industry. Restriction of production in both fields not only stems from the inadequate income of consumers but it aims at guaranteeing the incomes of farmers, industrialists, and investors. Such generalizations provide fit replacement for the former banalities concerning "utility" and "productivity." Moreover, in a contribution to the dynamics of income distribution which draws still further on the principle of "deficiency of demand," Professor Ise points out that these efforts to stabilize profits and farm income are self-defeating even in the most monopolistic instances. He suggests that before the war an increase of \$2.25 a day, for instance, in the income of the sixty per cent of the population who receive \$1,250 a year or less would have meant almost a billion-dollar increase in expenditures for food, and for other items in proportion. Without such increases—given, that is to say, the present radically unequal distribution of income—even the favored income classes must expect depression cuts when the war boom plays out. Such cuts are inevitable because "American industry cannot profitably maintain itself from the proceeds of sales to that portion [3 per cent] of our families that has incomes of more than \$5,000"—or even the 13 per cent which receives more than \$2,500 (p. 584).¹

Parallel to the restriction of entry and output which characterizes industry and agriculture as their reaction to "deficiency of demand"—the limited market for goods—is the restriction of entry and output by labor unions as their reaction to the limited market for labor. "The demand curve for plumbers' services," Professor Ise notes, "like practically all demand curves, slopes downward to the right" (p. 383). This constant

¹ The dollar figures would of course be higher at the present time (1947-8).

tendency to a "surplus" of plumbers and other workers, stemming from the lack of demand which enforces "surpluses" of agricultural and industrial products, is at the root of the monopolistic practices of labor unions. "However unfortunate the results may be, it is not surprising that organized labor . . . has fought to retain jobs" just as businessmen fight to retain markets (p. 408).

The "deficiency of demand" approach has thus been utilized by Professor Ise in the traditional divisions of economic theory having to do with price and income determination. Although not always dealt with in the same fashion these questions of price and income determination are treated in all economic textbooks—usually in terms of "price inflexibility." Nearly one-third of Professor Ise's book, however, is devoted to questions which are not discussed in most other texts, and in this section on "General Aspects of Capitalism" the guiding tool of explanation is again the concept of the limited market.

This section is of such wide range and import that attention can be paid here but to a part. But this part treats two of the characteristic phenomena of capitalism which are of the greatest importance yet have been generally overlooked in the introductory economics course; namely, imperialism and war in their relation to domestic business cycles and depression. It is plain from Professor Ise's exposition that these two phenomena are like their restrictionist brethren in the domestic field to a large extent aspects of "the problem that perennially plagues capitalist nations—how to distribute enough purchasing power."

The productivity of modern industry [he writes] is so great that producers are often unable to operate at full capacity because they cannot find markets In order to keep their prices up these producers must either restrict production or find foreign markets, or both; and they wage an aggressive search for foreign markets in order to maintain at least the output which will yield them maximum profits. Exporting manufacturers obviously prefer to have political control over the peoples to whom they export, for it may enable them to prevent these peoples from imposing high tariffs against them; it might even be possible to persuade them to impose such tariffs against their competitors . . . (p. 557).

Accompanying the need for markets is "the need for foreign fields in which to invest surplus savings"—the surplus savings of the rich is of course merely the other side of the coin of the inadequate consumption of the masses. An upshot of the twin imperialist drives for foreign investment and foreign markets may be local or world war.

Capitalism, particularly what is often called monopoly capitalism, is strongly expansive. Modern industry is vastly productive, and foreign

markets are demanded for the goods produced; great capitalist combinations are profitable, and foreign investments are needed for surplus savings. . . . Capitalists inevitably clash in their quest for foreign markets, investments, and raw materials; and since they are usually backed by their governments, which they largely control, wars result (p. 567).

It might be added that deficiency of demand contributes to the causes of war in a third way in that it creates unemployment and depression and with it that discontent and desire for "leadership" which is fertile ground for *Führers* and their schemes of aggression.

It is not surprising that with such realities as war and imperialism to investigate that Professor Ise has announced at the beginning of his treatise that "the intricacies of value analysis are not elaborated as fully as in a few recent works" (p. ix).² There remains the problem, however, of why "the intricacies of value analysis" are elaborated as fully as they are, and with them the "curves" which constitute much of the rest of traditional economic "principles." At least a fourth of Professor Ise's book is devoted to material of which the following statement is a sample:

The ATUC curve reaches its lowest point to the right of the lowest point on the AVC curve. Why is this? It is because total costs include fixed as well as variable costs; and the curve of average fixed costs, AFC, to the right of the line OY, crowds the ATUC curve to the right of the AVC curve (p. 215).

And this fourth of the book is replete with that "diagrammatic presentation" which is the despair of the student and the source of a great many man hours of *apologia pro vita sua* on the part of the economics teaching profession.

The reason this sort of thing continues to take up space, not only in Professor Ise's excellent text but in most of his contemporaries', seems to be, very simply: habit. Economists learned how to draw curves when they were students, it is natural that *their* students get the benefit of this learning, and the whole complex is perpetuated after the fashion of an intellectual vested interest.

Even such an explanation as this, however, probably goes too far.

² Like all good heretics, however, he denies his heresy: "Economics and business majors . . . should of course have additional and more intensive work on value" (p. ix). That such an avowal has strategic importance is suggested by the pique felt by the reviewer of Valdemar Carlson's "An Introduction to Modern Economics" (Philadelphia, 1946) a text like Professor Ise's both in that it employs the purchasing-power approach and that it is likely to be denounced as "communistic." "In his introduction," the reviewer of Carlson's text writes, "Carlson says, 'Some economists will deplore the omission of any formal discussion of distribution.' Certainly nothing need be added!" (*American Economic Review*, xxxvii, p. 432). There is no doubt that heresy in the writing of textbooks is here deplored.

Economists are no more habit-ridden than other men and in recent years have shown an almost pathetic eagerness to embrace new doctrine. Although most of this has been the same old hooch in brightly labelled new bottles—after all, publishers must live!—part of it represents a sincere attempt to bring the science into closer grips with the demand for new principles of theory. The monopolistic competition analysis, for example, differs only in its policy recommendations from the “deficiency of demand” analysis.

Leftists, of course, say that the vested interest of economists, however often superficial changes occur in their apparatus, is not intellectual; that the whole barrage of curves and formulae is a smokescreen behind which the realities of capitalism are hidden and the professors assured of the support of the *status quo*. As is obvious from the foregoing summary of Professor Ise’s book this charge is false. Moreover such consideration of the “decline of capitalism” as now appears in economics texts has already brought their authors into conflict with the guardians of the *status quo*, the “smokescreens” to the contrary notwithstanding. No less an established publishing firm than Harper’s, for instance, has recently had to defend two of its introductions to economics, one of them Professor Ise’s, from the charges, by the Small Businessmen’s Association and others, that they are “communistic” and “Red.”

DeWitt Emery [reads a Harper’s advertisement entitled “Is the Witch-hunt on in American Colleges?”] President of the Small Businessmen’s Association, quoting a few passages on progressive taxation out of the context of [one of the text books] has been widely quoted in the press as saying, “I don’t know what you call this kind of stuff, but to me it’s pure Communism.”

But publishers are likely to prove disappointed if they believe that informing their authors’ detractors that the books in question advocate nothing more radical than progressive taxation will stop the witch hunt. After all, the “deficiency of demand” analysis and the advocacy of such measures as progressive taxation which follows from it *are* radical in the sense that they point to a fatal defect in the present economy.

As Professor Ise says, “world developments over the past twenty-five years prove that our economic system is not in a sound condition” and “it may presently have to be abandoned” (p. ix). And as even so-called “small” businessmen know, such a reform as taxation progressive enough to eliminate over-saving and through some sort of distribution of the proceeds “enable the people who need goods to buy them” strikes at the

heart of absolute capitalism. To absolute capitalists, such proposals are indeed "pure communism" and professors can be safe only by devoting their whole time to the promulgation of innocuous and enervating "diagrammatic presentation." But the whole trend of modern experience points to a fundamental change in viewpoint on the unstemmed capital accumulation and the accompanying radical economic inequality now regarded as the *summum bonum* of society, and with it an acceleration of the trends of text-book writing so apparent in Professor Ise's work. On this issue the writers of text-books like economists in general are being forced in their very search for economic principles to take a stand. Gentlemen, which side are you on?

ELGIN WILLIAMS

University of Washington

International Investment and Welfare

International Investment and Domestic Welfare: Some Aspects of International Borrowing and Lending in the Post-War Period. By Norman S. Buchanan. New York: Henry Holt & Co., 1945, 249 pp., \$2.75.

The relationship between international investment and domestic welfare is an economic question of the first magnitude. Professor Buchanan has undertaken to supply the necessary factual background (as of 1945) and to analyze some of the primary assumptions underlying discussions of the problem. He has wisely given a set of tentative summaries in lieu of conclusions. It is well to recognize, as does Professor Buchanan, that "conclusions" in works of this type are really inconclusive—that at best they represent or suggest direction.

Foreign investments do not appear to give such an impetus to domestic employment as would result from greater home investment. Primarily the export industry would benefit, but only temporarily, since there is a limit to foreign lending; then the matter of repayments arise, not to mention fixed charges such as interest. To permit loans to become gifts by a process of default or repudiation, says Professor Buchanan, will not aid our domestic economy or promote international welfare.

According to the author there are three major lines along which American policy should develop in relation to the world economy. He believes that the greatest contribution this country can make to the world is to maintain a full employment, *i.e.*, high level economy in the United States. This means that home investment should be as great as possible with no foreign investment beyond those commitments already agreed to at Bretton

Woods. A second point is the systematic reduction of the tariff. Such reductions can be made most opportunely now. Finally, if a sufficient dollar exchange is not held by the rest of the world after the advancement of credit and tariff reductions, the United States should undertake a program of stockpiling of vital raw materials.

Professor Buchanan has written an incisive and interesting book about a problem that is presently aggravating the international scene. I do not believe that the granting of foreign credits can depend upon an agreement such as Bretton Woods, or a view of our domestic welfare that is limited primarily to financial factors. There are considerations beyond immediate postwar reconstruction needs. The problem is as much political as it is economic, and Professor Buchanan has not chosen to examine this point. If the failure to supply sufficient credit results in political upheaval in Europe and Asia—going to the left—the domestic welfare of the United States will become precarious, and we may be forced to adopt an isolationist position.

ERNEST RUBIN

Philadelphia

Co-operatives in the U.S.S.R.

Co-operation in the Soviet Union. By M. Barou. London: Victor Gollancz, Ltd., 1946, 123 pp., 6 s.

The struggle of co-operative organizations for autonomy in Russia is covered in this study by Dr. Barou, prepared for the Fabian Society in London, which includes difficulties met under the Tsarist regime as well as under the Soviet Government.

Dr. Barou, who was born in Russia, has been associated with the Russian Labor Movement since 1908. He also was with the Co-operative Wholesale Society (Centrosjus) in Moscow, Berlin and London. From 1925 to 1931 he was a director of the Soviet Co-operative Bank in London.

While co-operatives in Russia have not been regarded as completely free of State control by co-operative officials outside of Russia, democratic planning and management is reported to exist.

The first consumer co-operative in Russia was organized in Kinov in the Urals, in 1863, according to Dr. Barou. By the time of the Communist revolution consumer co-operatives had become well established. Considerable progress was also made by agricultural co-operatives "despite the strict supervision of the Tsarist police," he writes. Other co-operative enterprises covered are in the fields of handicrafts and banking. A chapter

is included on "Co-operation and the War." In the appendix are population and family figures, statistics on livestock, consumers' and capital goods, shops, stalls and warehouses, collective farming under German occupation, co-operative education in Russia and a chapter also on the war agricultural executive committees in Great Britain. He compares the agricultural machinery departments of these committees with the Soviet machine tractor stations which provide farm machinery for collective farms under contract.

Complete adherence to Rochdale principles, established in 1844 in England by twenty-eight unemployed weavers, is negated by the policy of Russian co-operatives not to pay interest on capital. Dr. Barou declares they have been "justly proud" of "strict adherence" but he allows for "the adjustments required by the quite new conditions obtaining" in the Soviet Union. Another adjustment may be that of waning political neutrality, a principle which even the co-operative movement in England has not lived up to, nor for that matter has it been completely successful elsewhere.

That this principle lost ground, so far as Russia is concerned, was a natural result of the struggle of the Russian revolutionists against the Tsarist regime. After the Revolution the Soviet Government resorted to the expedient of State control, which Dr. Barou maintains was temporary, and exercised to insure its own existence. However, he says State and co-operative economic institutions now function as integrated and complementary forces. Though there was liquidation of urban consumer co-operatives in Russia, the British Co-operative Delegation to the Soviet Union in 1944, it is noted, reported indications that co-operatives in the rural areas would not share their fate: "Instead of the State developing from town to country," the expectation "was that the co-operative organization would develop from the country into the town."

PRESTON KING SHELDON

New York

A Critique of Urban Finance

Tax Reduction or Tax Relief—Which? By Gilbert M. Tucker. Chicago: *The Appraisal Journal*, July 1947, pp. 392-8.

This article by Gilbert M. Tucker, author of the recent book, "The Self-Supporting City," is interesting for two reasons. His subject-matter is a clear exposition of the economic philosophy of Henry George (as it bears upon municipal finance), though George's name is not mentioned. It is published in a real estate journal.

Mr. Tucker points out the great confusion that arises from the term "real estate" which includes two very different kinds of property and which makes no distinction between the two. He contrasts "land" and "improvements" on land. He believes with the first sentence in Genesis: "In the beginning God created the heaven and the earth." He does not believe that the earth was made in a General Motors or Henry Ford factory.

He points out that the titleholder to land, as a titleholder, is a non-producer; that the rental value of land is due to the efforts of civilized society in the production of wealth. He points out that by collecting the full annual rental value of land, "unused and ill-used land" would be thrown on the market, making land, in a use-sense, more plentiful.

He looks upon ground rent as public property and upon improvements on land as private property. He believes that taxing improvements on land increases cost and results "in diminished supply and scarcity"; also that taxes on improvements are passed on to the tenants and are part of cost of improvement operation.

He believes that by collecting the annual rental value of land, "the city can become a self-supporting corporation, . . . living on the earnings of its huge investments in streets, pavements, utilities," etc. He looks upon the present system of municipal taxation as "the sheerest lunacy."

H. ELLENOFF

Los Angeles

Malestroit's Paradoxes

The Response of Jean Bodin to the Paradoxes of Malestroit and Malestroit's Paradoxes. Translated by George Albert Moore, with an introduction by G. A. Briefs. Chevy Chase, Md.: the Country Dollar Press (209 Elm Street), 1946, \$2.75.

Colonel Moore's translation makes available for the first time in English the full texts of the treatises of Malestroit (1566) and Bodin (1568). Malestroit's paper is interesting as a record of the dated thinking of his time. His excursion into the theory of money and prices, however, had more than historical significance, for it elicited Jean Bodin's *Responsio*, a work which was one of the precursors of the quantity school of monetary theory. Bodin realized the need for a stable price level and suggested a variety of practical measures to achieve it. Colonel Moore is to be congratulated on providing a readable translation of this work.

American Policy in Germany

Occupation of Germany: Policy and Progress. State Department Publication 2783, European Series 23. Washington 25, D. C.: U. S. Government Printing Office, August, 1947, 241 pp., charts, maps, 75c.

This useful work presents a 70-page review of the genesis and development of United States policy toward Occupied Germany in 1945 and 1946, and a round-up, in convenient form, of the relevant documents and semi-official materials. The inadequacy of our policy is clearly shown. For example: "Questions of basic internal economic and social reform, it is believed, should be left for decision to German governments of democratic character. The United States Government is sympathetic, however, with reform proposals of a democratic character, and has approved a moderate land-reform measure for the U.S. zone" (p. 42). The measure, indeed, is so moderate that it is hardly likely to be of any effectiveness at all. Our policy is inadequate mainly because, traditionally, we do not like to interfere in the affairs of others, even of erstwhile enemies, and therefore we do not back the specialists in government in a more positive policy. We should at least be as vigorous in evangelizing for a democratic reform movement as our ideological competitors are in promoting anti-democratic reform movements. The fight for justice, freedom and progress all over the world, the only means of achieving peace and plenty for all; is still to be won.

W. L.

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